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MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part I. ¹ - 9

(*Introduction*)

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Acknowledgments

This submission was prepared under the direction of a Committee of the Cabinet, consisting of the Hon. John Bracken, the Hon. Stuart Garson, K.C., and the Hon. Wm. J. Major, K.C.

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INTRODUCTION

By HON. JOHN BRACKEN

At the outset of my remarks I wish to express to the Dominion Government our appreciation of their action in appointing this Commission.

It is now seventy years since the federal system of government was adopted in Canada. That system set up a certain division of responsibilities between the Dominion and Provincial governments, and a division of the fields of revenue. It is our opinion that the time is now long past due when, in the interests of the nation as a whole, a review of the relationships then set up should be made. In order that we may meet the changed conditions of today, including the altered conception of the responsibilities of government and the constitutional handicaps which now tie the nation's hands in dealing with some of its major problems—in order that we may further promote the stability and progress of Canada, we believe it to be necessary not only that a review of the relations of each part to the whole be made, but also that a revision of the original set-up be recommended by this Commission and the necessary steps taken by the Dominion Government to make it effective.

Before proceeding further I wish also to extend to the individual members of the Commission our sincere congratulations on their having been deemed worthy of appointment to this important task. There can hardly be found any greater opportunity to serve the Canadian nation than that which is yours today. It is an opportunity which carries with it what is probably the greatest challenge to Canadian statesmanship that has presented itself in this generation; a challenge that is not second in importance to that which faced the Fathers of Confederation over seventy years ago; one that carries with it a responsibility which Canadians are happy to believe has been placed upon capable shoulders. Speaking for the citizens of Manitoba, I may say that we look upon the members of this Commission as men especially well equipped by training, by temperament and by experience to carry out this great task in a manner befitting its importance and worthy of the best traditions of the British system of democratic government.

PURPOSES OF THE COMMISSION

The purposes of the Commission, we understand, are to discover the weaknesses of the existing governmental relationship and to make such recommendations as will remove all just causes of disaffection and all hindrances to effective governmental action in dealing with the many problems now facing us. Among its chief purposes, it seems to us, is that of helping to

bring about not only a more united Canada but also a Canada in which all its people will have the consciousness, that insofar as the division of responsibilities under their governmental set-up is concerned, it is as equitable, as efficient and as just as it is possible for human minds to effect.

If, as a result of your work, such a revision of Dominion-Provincial relations can be made, or such a readjustment of Dominion-Provincial responsibilities effected as will accomplish this purpose, a long step forward will have been taken in strengthening the spirit of Canadian unity and in binding more closely together the different economic areas within the nation. If, following your report and subsequent action by the Dominion Government, all substantial causes of friction are removed, a still further advance will have been made in the direction of establishing confidence on the part of all Canadians, wherever they may be domiciled, that this country means to assure to them in their instruments of government a means by which they may hope to achieve the greatest possible measure of political and social justice for all areas and all individuals.

It is unnecessary here to recount in detail the conditions leading up to the appointment of this Commission. It will be sufficient for our purpose at this time to point out, that from the earliest years of Confederation, there has arisen in province after province protests of inequity and claims for adjustment, large numbers of which have been found on examination to be just complaints and many of which have been partially, or wholly, adjusted. The fact that the British North America Act has been amended several times in seventy years and the financial terms adjusted on many occasions is ample evidence that neither the division of responsibilities, as determined seventy years ago and interpreted since, nor all details of the wording of that Act should be considered satisfactory for all time to come. If further evidence of this were needed, it is to be found in the preamble of the terms of reference in which the instructions to this Commission are set out and which may be summarized as follows:

TERMS OF REFERENCE

- (1) That it has been found necessary by Dominion and Provincial Governments, in the public interest, to accept responsibilities and to extend governmental services not foreseen at the time of Confederation;
- (2) That the magnitude of these responsibilities demands efficiency in administrative organization and the wisest possible division of powers and functions between the respective governments;
- (3) That the public interest may be adversely affected by lack of a clear division of powers and responsibilities between the central and provincial governments and that public expenditures are increased by the overlapping and duplication of services;

- (4) That the provincial governments have represented that the constitutional responsibilities placed upon them by Confederation cannot be met by the limited sources of revenue within their jurisdiction and that either the constitutional responsibilities must be reduced, or new revenue sources made available, or adjustments made in both these directions;
- (5) That the provincial governments have represented on behalf of municipal governments that the responsibilities of the latter are too great for their resources of revenue and more particularly that the undue burden placed on real estate by municipal taxes is retarding economic recovery; and
- (6) That unless appropriate action is taken the constitutional set-up as it now exists will not satisfactorily meet the needs of today without subjecting Canada's governmental structure to undue strains and stresses.

From these submissions by the Prime Minister, it is obvious that there has developed a general recognition of the necessity, in the national interest, of a re-examination of Dominion-Provincial relations.

The federal cabinet, in the light of these representations, has recommended that certain things be done, and these recommendations form the basis of your instructions. They may be summarized as follows:

- (1) That there should be a re-examination of the economic and financial basis of Confederation, and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years;
- (2) That for this purpose a Commission of five outstanding Canadian citizens be appointed;
- (3) That these Commissioners, without limiting the general scope of their inquiry, be instructed:
 1. (a) To examine the distribution of revenue sources and governmental burdens as between the Dominion and Provincial governments;
 - (b) The past results of such relationship; and
 - (c) The suitability of that relationship to present and probable future conditions;
 2. To investigate the taxation set-up in Canada with a view to determining its efficiency and its equity as between the different governmental institutions, and their legal and constitutional limitations and the financial and economic conditions that exist;

3. After examination of the public expenditures and public debts in general, to determine two things:
 - (a) Whether the division of governmental responsibilities is equitable and conducive to efficient administration; and
 - (b) The ability of the Dominion and Provincial governments to discharge their responsibilities within the present allocation of functions and powers or on the basis of some other allocation thereof;
4. To investigate Dominion subsidies and grants to provincial governments.

At the same time, the Dominion cabinet further instructed the Commissioners substantially as follows:

- (1) To consider and report upon the facts disclosed by their investigations;
- (2) To express what, in their opinion, within a federal system which takes cognizance of national needs and the necessity of national unity, would best effect a balanced relationship between the responsibilities and revenues of each governing body.

These, then, are the instructions from the Government of Canada to you as members of this Royal Commission. These instructions are not narrow. As we read them, they leave open to you for investigation, with no restrictions whatever, the whole field of Dominion-Provincial relationships in Canada, not excluding the problems of the municipalities and school districts, which are part of the machinery of the provincial governments.

REPRESENTATIONS BY PROVINCES

In your study of the problems that have been given you, you have planned to meet the different provincial governments in Canada and such other organizations as may wish to make representations to you. We understand that, after visiting all provinces and receiving their representations, you then plan to meet in Ottawa to review in greater detail the representations that have been made, and if deemed advisable to have them supplemented by further evidence.

You have paid the Province of Manitoba the compliment of asking to hear our representations first. In what we shall have to say we shall speak as Canadians, not as sectionalists. What we shall say we shall say as Canadian citizens who happen to live in this part of Canada. What we shall say will be said because it needs saying in the interests of Canada as well as of Manitoba. We shall try not to over-state nor yet to under-state the facts as they exist. We shall make our presentation not as mendicants seeking favours, but as Canadian citizens seeking equity. We shall necessarily speak frankly concerning certain federal policies which in the West are working against the best interests of Canada as a whole. We shall ask that certain burdens and disabilities which

now bear inequitably upon Canadians in this part of Canada be either removed or adjusted. In doing so we shall expect no more than even-handed justice. We shall ask for no more and as long as we have confidence in the nation's sense of justice we shall expect no less.

In presenting our case we shall feel that we are not less Canadian in spirit or in reality if we show that the economic picture which Canada, not intentionally but nevertheless actually, has permitted to be drawn across this section of the Dominion is not just to those Canadians who happen to live here and is not in the interests of Canada as a whole.

As to the specific proposals we shall present for your consideration, we ask only that they be accepted if they stand the test of the most critical analysis. If on examination they meet with substantial approval on your part, we trust they will be found acceptable by the Parliament of Canada and that they will be implemented by the necessary Parliamentary action.

METHOD OF PRESENTATION

Since you are here to consider the problems arising out of Dominion-Provincial constitutional relations, it is first necessary to state what these relations are and what they have been interpreted to be. The next part of our presentation will, therefore, be a statement setting out "The Constitutional Relations of the Dominion and the Provinces," as we see those relations in the light of the constitution itself, the judicial interpretations of the constitution and the practices which now obtain under it. In this presentation, among other things, it will be shown that certain wide responsibilities and powers were given to the central government at the time of Confederation.

In the third and fourth parts we shall show that some of these powers have been exercised in a way that has been to the great disadvantage of this part of Canada. Specifically, we refer to the effects of federal monetary policy and federal tariff policy upon the prosperity of Manitoba and the West.

From the facts presented in these last mentioned parts of our submission, and from other facts, it will be apparent that the major problem facing Manitoba people and Western people generally is that of reduced incomes. We shall, therefore, in the fifth part of our case, present a detailed analysis of "The Effects of Declining Income."

This will be followed by a statement of "The Financial Problems of Municipalities and School Districts" and this by an "Analysis of Manitoba's Treasury Problem."

We shall then present a summary of our case together with certain general and specific recommendations. It will be succeeded by such amplification of our proposals as we trust will make clear to the Commission the import and effect of these suggested remedies.

In addition to the case presented by the provincial government, representations will be made by the municipalities of Manitoba, including the City of Winnipeg, the suburban municipalities and the rural municipalities. We also understand the Manitoba School Trustees' Association, the Manitoba Teachers' Association, the Home Owners' Association and possibly others desire to be heard.

Before proceeding with these submissions, I wish to express to the individual members of the Commission and particularly to the Chairman and the Secretary, our appreciation of the consideration they have shown us in making their plans for this hearing and the co-operation they have given in matters connected with the preparation of our brief. Needless to say, we shall rest our case wholly on such grounds of economic and social justice as we trust will appeal to all sections of Canada and not to Western Canada alone. In any case, we feel that the recommendations of this Commission, whether favourable to all our proposals or otherwise, will be the best decisions that unbiased and well-qualified judgment can produce.



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Canada ... DOMINION - PROVINCIAL RELATIONS

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THE GOVERNMENT OF THE PROVINCE OF MANITOBA

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*The Constitutional Relations of the
Dominion and the Provinces*

WINNIPEG, MANITOBA
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PART II

THE CONSTITUTIONAL RELATIONS OF THE DOMINION AND THE PROVINCES

The Government of Manitoba feels that the situation at present existing relative to the constitution of Canada is intimately bound up with the important matters to be considered by this Commission. Hence the Government of Manitoba has thought it expedient to present this paper on the constitution of Canada. By so doing it hopes to show *inter alia* the change which has taken place in the conception of the extent of the powers and responsibilities of the provinces under the constitution of Canada as interpreted by the courts, without any corresponding change in the revenues necessary to discharge such responsibilities or in the power to raise such revenues.

It seems advisable to discuss the matter under two headings, viz.:

1. The interpretation placed upon the constitution, chiefly in so far as it relates to the distribution of legislative powers between the Dominion and the provinces.
2. The amendment of the constitution.

Obviously these two headings are interrelated.

If the interpretation placed by the courts on the constitution results in onerous responsibilities being imposed on the various provinces of Canada which could not have been contemplated by the Fathers of the Constitution, then the constitution should be amended so as to ease such responsibilities. If at present there is no satisfactory method of amending the constitution, then the responsibilities and resulting disabilities are only accentuated and intensified.

The constitution of Canada consists of the British North America Act, 1867, and its amendments, modified and affected "by the silent operation of constitutional principles,"* by the rules of English constitutional law, and by the usages and conventions which have grown up in the course of the development of English political institutions. Generally speaking, however, the constitution of Canada and the British North America Act, 1867, are treated as one and synonymous, and they will be so considered in this section.

First in order we shall consider the interpretation of the constitution of Canada, chiefly in so far as it relates to the distribution of legislative powers between the Dominion and the provinces. In succeeding sections of Manitoba's submission we shall present cogent testimony to the fact that the constitution

*See 14 Appeal Cases at p. 293.

of Canada as it stands to-day, after some seventy years of interpretation, does not enable the various jurisdictions in Canada to solve effectively the many pressing national problems now confronting the people of Canada.

ORIGIN AND DEVELOPMENT OF THE BRITISH NORTH AMERICA ACT, 1867

Before setting out the leading points in the interpretation of the constitution of Canada, it is advisable, for a better understanding of the situation, to trace the development of the British North America Act, 1867, from its origin. By so doing we may determine how far the interpretation placed by the courts on the Act harmonizes with the expressed intentions of those responsible for it. Accordingly, it is advisable first to examine the original agreement of 1867 and the proceedings leading to it in regard to the manner in which legislative powers were to be distributed between the Dominion and the provinces. It may be said with substantial accuracy that from the year 1850 the idea of confederation was in the mind of every public man in Canada. Lord Durham had said in his report that the objects sought by the Act of 1841 would perhaps be better attained by extending legislative union over all the British provinces in North America. On September 1, 1864, delegates from Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland met at Charlottetown, Prince Edward Island, for the purpose of discussing the expediency and practicability of a union of these maritime provinces of British North America.

In the United Provinces of Upper and Lower Canada a coalition government was in existence at the time when the Charlottetown Conference was in session. This coalition government had as its chief aim the union of all the provinces of British North America. The government of the United Provinces therefore sent a deputation to confer with the delegations from the maritime provinces. The joint delegations met at Charlottetown on September 2, 1864, and subsequently at Halifax, Nova Scotia, and Saint John, New Brunswick. On October 10, 1864, as a result of an invitation from the government of the United Provinces of Upper and Lower Canada, delegates from Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, and Canada met at the city of Quebec to consider the question of the larger scheme of a general union or federation.

The conference at Quebec continued its sessions until October 29. At this conference some 72 resolutions were adopted which were intended to serve as the basis of the proposed federation of the provinces of British North America. These are frequently referred to as the Quebec Resolutions. Resolution 70 of the Quebec Conference refers to obtaining the sanction of the Imperial Parliament for the union of the provinces on the principles adopted by the conference. Accordingly, on December 4, 1866, delegates from the United Provinces of Upper and Lower Canada, New Brunswick, and Nova

Scotia met at London, England, in order to confer with and to discuss their problems with the British Government. The conference at London has been described as a conference of give and take as regards the final discussions which were held between the Imperial Government and the delegates who went there to represent the provinces of Canada. The resolutions adopted at the London Conference are frequently referred to as the London Resolutions.

INTERPRETATION OF THE CONSTITUTION

INTRODUCTION

The constitution of Canada, like that of any country, has to be interpreted in order that its meaning may be ascertained. The matter of interpretation is a duty assigned to our courts. For Canada the final tribunal in matters of interpretation is the Judicial Committee of the Privy Council. One of the prominent members of the present Judiciary of the United States, when he occupied an executive and administrative office some years ago, expressed the view that the constitution of that country "is what the judges say it is." The same may be said of the constitution of Canada.

The truth is that words by themselves have no absolute and fixed meaning. The meaning of words is always that which is impressed upon them by the minds through which they pass. The permanence of the words does not mean the permanence of the law. Hence it is important to observe that the meaning of the constitution of Canada is not to be found in the bare language of the British North America Act of 1867 alone, but in the interpretation placed upon it by the courts and chiefly by the Judicial Committee of the Privy Council.

The intention of the delegates who met at Quebec in 1864, the authors and founders of our constitution (referred to as the Fathers of Confederation), who worked in the light of the conditions which existed 70 years ago, may be found in:

1. The proceedings of the Charlottetown Conference of 1864, of which no official record appears to have been published.
2. The 72 Resolutions adopted at the Quebec Conference of 1864.
3. The 69 Resolutions adopted at the conference in London, England, in 1866.
4. The discussions relative to the above in the various legislatures and conferences.

The first two Resolutions of the Quebec Conference and of the London Conference are substantially the same. They are as follows:

1. The best interests and present and future prosperity of British North America will be promoted by a Federal Union under the Crown of Great Britain, provided such union can be effected on principles just to the several provinces.
2. In the Federation of the British North American Provinces the system of government best adapted under existing circumstances to protect the diversified interests of the several provinces, and secure efficiency, harmony, and permanency in the working of the union, would be a general government charged with *matters of common interest to the whole country*, and local governments for each of the Canadas and for the provinces of Nova Scotia, New Brunswick, and Prince Edward Island,

charged with the *control of local matters* in their respective sections, provision being made for the admission into the union on equitable terms of Newfoundland, the North-West Territory, British Columbia, and Vancouver.

Resolution 29 of the Quebec Conference, which formed the basis of Section 91 of the constitution, is as follows:

29. The General Parliament shall have power to make laws for the peace, welfare and good government of the Federated Provinces (saving the Sovereignty of England), and especially laws respecting the following subjects:

1. The public debt and property.
2. The regulation of trade and commerce.
3. The imposition or regulation of duties, of customs on imports and exports, except on exports of timber, logs, masts, spars, deals, and sawn lumber, and of coal and other minerals.
4. The imposition and regulation of excise duties.
5. The raising of money by all or any other modes or systems of taxation.
6. The borrowing of money on the public credit.
7. Postal service.
8. Lines of steam or other ships, railways, canals, and other works, connecting any two or more of the provinces together, or extending beyond the limits of any province.
9. Lines of steamships between the federated provinces and other countries.
10. Telegraphic communication and the incorporation of telegraph companies.
11. All such works as shall, although lying wholly within any province, be specially declared by the acts authorizing them to be for the general advantage.
12. The census.
13. Militia—military and naval service and defence.
14. Beacons, buoys, and lighthouses.
15. Navigation and shipping.
16. Quarantine.
17. Sea coast and inland fisheries.
18. Ferries between any province and a foreign country, or between any two provinces.
19. Currency and coinage.
20. Banking, incorporation of banks, and the issue of paper money.
21. Savings banks.
22. Weights and measures.
23. Bills of exchange and promissory notes.
24. Interest.
25. Legal tender.
26. Bankruptcy and insolvency.
27. Patents of invention and discovery.
28. Copyrights.
29. Indians and lands reserved for the Indians.
30. Naturalization and aliens.
31. Marriage and divorce.
32. The Criminal law, excepting the constitution of courts of criminal jurisdiction, but including the procedure in criminal matters.
33. Rendering uniform all or any of the laws relative to property and civil rights in Upper Canada, Nova Scotia, New Brunswick, Newfoundland, and Prince Edward Island, and rendering uniform the procedure of all or any of the courts in these provinces; but any statute for this purpose shall have no force or authority in any province until sanctioned by the legislature thereof.

34. The establishment of a General Court of Appeal for the Federated Provinces.
35. Immigration.
36. Agriculture.
37. And generally respecting all matters of a general character, not specially and exclusively reserved for the Local Governments and Legislatures.

Resolution 43 of the Quebec Conference, which formed the basis of Section 92 of the constitution, is as follows:

43. The local legislatures shall have power to make laws respecting the following subjects:
 1. Direct taxation and the imposition of duties on the export of timber, logs, masts, spars, deals, and sawn lumber, and of coals and other minerals.
 2. Borrowing money on the credit of the province.
 3. The establishment and tenure of local offices and the appointment and payment of local officers.
 4. Agriculture.
 5. Immigration.
 6. Education, saving the rights and privileges which the Protestant or Catholic minority in both Canadas may possess as to their denominational schools at the time when the Union goes into operation.
 7. The sale and management of public lands, excepting lands belonging to the General Government.
 8. Sea coast and inland fisheries.
 9. The establishment, maintenance, and management of penitentiaries, and of public and reformatory prisons.
 10. The establishment, maintenance, and management of hospitals, asylums, charities, and eleemosynary institutions.
 11. Municipal institutions.
 12. Shop, saloon, tavern, auctioneer, and other licenses.
 13. Local works.
 14. The incorporation of private or local companies, except such as relate to matters assigned to the General Parliament.
 15. Property and civil rights, excepting those portions thereof assigned to the General Parliament.
 16. Inflicting punishment by fine, penalties, imprisonment, or otherwise for the breach of laws passed in relation to any subject within their jurisdiction.
 17. The administration of justice, including the constitution, maintenance, and organization of the courts, both of civil and criminal jurisdiction, and including also the procedure in civil matters.
 18. And generally all matters of a private or local nature, not assigned to the General Parliament.

Generally speaking, the intention of the Fathers of Confederation was to give to the Parliament of Canada jurisdiction relative to all the great subjects of legislation and all matters of national importance, of common interest to the whole country, and to give the legislatures of the provinces jurisdiction relative to matters of local importance. This is declared explicitly by Resolution 2 of said Quebec Resolutions. The Fathers of Confederation who spoke on the matter of the distribution of legislative powers in the proposed federal union emphasized this matter of national importance and local importance, of general government and local government, etc. In the discussions in the Conference at Quebec on October 11, 1864, Honourable Attorney-General Macdonald (later Sir John A. Macdonald), who is referred to as the Chief Architect of Confederation, said as follows:

The various States of the adjoining Republic had always acted as separate sovereignties. The New England States, New York State and the Southern States had no sympathies in common. They were thirteen individual sovereignties, quite distinct the one from the other. The primary error at the formation of their constitution was that each state reserved to itself all sovereign rights, save the small portion delegated. We must reverse this process by strengthening the General Government and conferring on the Provincial bodies only such powers as may be required for local purposes. All sectional prejudices and interests can be legislated for by local legislatures.

There is recorded an incident that occurred on the evening of Monday, October 24, 1864, during one of the sessions of the Quebec Conference. Honourable Mr. Mowat had introduced a motion respecting the powers of the local legislatures. It was moved by Honourable Mr. Coles, of Prince Edward Island, in amendment to the motion of Honourable Mr. Mowat: "That the Local Legislatures shall have power to make all laws not given by this Conference to the General Legislature expressly." The question of concurrence being put on the amendment, the same was unanimously resolved in the negative. This seems to establish quite clearly that all the delegates at the Quebec Conference were agreed that the general legislature was not to be bound by a specific list of enumerated powers, but was to have the residue of legislative capacity over and above such enumerated powers.

Then it is interesting to record certain passages in the speeches of some of the Fathers of Confederation in the debates on confederation in the Parliament of the United Provinces of Upper and Lower Canada in 1865. Honourable Attorney-General Macdonald (later Sir John A. Macdonald) said as follows:

In the proposed Constitution *all matters of general interest* are to be dealt with by the General Legislature; while the local legislatures will deal with matters of local interest, which do not affect the Confederation as a whole, but are of the greatest importance to their particular sections. . . .

The Conference having come to the conclusion that a legislative union, pure and simple, was impracticable, our next attempt was to form a government upon federal principles, which would give to the General Government the strength of a legislative and administrative union, while at the same time it preserved that liberty of action for the different sections which is allowed by a Federal Union. . . .

They (the United States) commenced, in fact, at the wrong end. They declared by their Constitution that each state was a sovereignty in itself, and that all the powers incident to a sovereignty belonged to each state, except those powers which, by the Constitution, were conferred upon the General Government and Congress. Here we have adopted a different system. We have strengthened the General Government. We have given the General Legislature all the great subjects of legislation. We have conferred on them, not only specifically and in detail, all the powers which are incident to sovereignty, but we have expressly declared that all subjects of general interest not distinctly and exclusively conferred upon the local governments and local legislatures, shall be conferred upon the General Government and Legislature. We have thus avoided that great source of weakness which has been the cause of the disruption of the United States. We have avoided all conflict of jurisdiction and authority, and if this Constitution is carried out, as it will be in full detail in the Imperial Act to be passed if the colonies adopt the scheme, we will have in fact, as I said before, all the advantages of a legislative union under one administration, with, at the same time the guarantees for local institutions and for local laws, which are insisted upon by so many in the provinces now, I hope, to be united. . . .

. . . but any honorable member on examining the list of different subjects which are to be assigned to the General and Local Legislatures respectively, will see that *all the great questions which affect the general interests* of the Confederacy as a whole are confided to the Federal Parliament, while the local interests and local laws of each section are preserved intact, and entrusted to the care of the local bodies. . . .

It will be seen that the local legislatures have the control of all local works; and it is a matter of great importance, and one of the chief advantages of the Federal Union and of local legislatures, that each province will have the power and means of developing its own resources and aiding its own progress after its own fashion and in its own way. Therefore all the local improvements, all local enterprises or undertakings of any kind, have been left to the care and management of the local legislatures of each province. . . .

Besides all the powers that are specifically given the 37th and last item of this portion of the Constitution confers on the General Legislature the general mass of sovereign legislation, the power to legislate on "all matters of a general character, not specially and exclusively reserved for the local governments and legislatures." This is precisely the provision which is wanting in the Constitution of the United States. It is here that we find the weakness of the American system—the point where the American Constitution breaks down. It is in itself a wise and necessary provision. We thereby strengthen the Central Parliament, and make the Confederation one people and one government, instead of five peoples and five governments, with merely a point of authority connecting us to a limited and insufficient extent. With respect to the local governments, it is provided that each shall be governed by a chief executive officer, who shall be nominated by the General Government. As this is to be one united province, with the local governments and legislatures subordinate to the General Government and Legislature, it is obvious that the chief executive officer in each of the provinces must be subordinate as well. . . .

The true principle of a confederation lay in giving to the General Government all the principles and powers of sovereignty, and that the subordinate or individual states should have no powers but those expressly bestowed on them. We should thus have a powerful Central Government, a powerful Central Legislature, and a decentralized system of minor legislatures for local purposes.

Sir George Cartier stated that:

Under the Federation system, granting to the control of the General Government *these large questions of general interest* in which the differences of race or religion had no place, it could not be pretended that the rights of either race or religion could be invaded at all.

Honourable Mr. Galt (later Sir A. T. Galt) stated that:

. . . we may well doubt whether the aggregate charge will be greater for the General Government, caring for the *general interests of the whole*, and for the local governments, attending merely to the local business of each section, we may well doubt, I say, whether that expense will be greater, in any considerable degree, than that which is required for our Government under the present system. On the one hand we shall be free from the empty parade of small Courts entailed by our present system on each of these provinces, keeping up a pretence of regal show when the reality is wanting; we shall have the legislation of the General Government restricted to those great questions which may properly occupy the attention of the first men in the country; we shall not have our time frittered away in considering the merits of petty local bills, and therefore we may reasonably hope that the expenses of the General Legislature will be considerably less than even those of the Legislature of Canada at the present moment—while, on the other hand, the local legislatures having to deal rather with municipal than great general questions, will be able to dispose of them in a manner more satisfactory to the people, and at infinitely less expense than now.

Honourable D'Arcy McGee stated that:

The principle of Federation is a generous principle. It is a principle that gives men local duties to discharge, and invests them at the same time with general supervision, that excites a healthy sense of responsibility and comprehension. It is a principle that has produced a wise and true spirit of statesmanship in all countries in which it has ever been applied. It is a principle eminently favorable to liberty, because local affairs are left to be dealt with by local bodies and cannot be interfered with by those who have no local interest in them, while matters of a general character are left exclusively to a general government.

Honourable L. A. Olivier stated that:

The powers of the Federal Government will be in reality unlimited. The fact of the enumeration of these thirty-seven heads does not in the least restrain the power of the Federal Government from legislating on everything. The exceptions are few.

Finally, one may quote the words used by Lord Carnarvon when introducing the British North America Act, 1867, in the Imperial Parliament:

The real object which we have in view is to give to the central government those high functions and almost sovereign powers by which general principles and uniformity of legislation may be secured in those *questions that are of common import to all the provinces*; and at the same time to retain for each province so ample a measure of municipal liberty and self-government as will allow and indeed compel them to exercise those local powers which they can exercise with great advantage to the community. . . . In closing my observations upon the distribution of powers, I ought to point out that, just as the authority of the central parliament will prevail whenever it may come into conflict with the local legislatures, so the residue of legislation, if any, unprovided for in the specific classification which I have explained, will belong to the central body. It will be seen, under the ninety-first clause, that the classification is not intended to 'restrict the generality' of the powers previously given to the central parliament, and that those powers extend to all laws made 'for the peace, order, and good government' of the confederation—terms which, according to all precedent, will, I understand, carry with them an ample measure of legislative authority.

The language used throughout the discussions and in the Quebec and London Resolutions would seem to afford abundant confirmation of the principle that all matters of national importance "of common import to all the provinces," pertaining to the general interest of the whole were the responsibility of the Parliament of Canada, while all matters of merely local importance in each province were to be under provincial control.

The British North America Act, 1867, which was drafted in London and which became law on July 1, 1867, was an effort to give legal expression to the resolutions which had already been adopted. Considerable has been written on the matter of how far the British North America Act, 1867, harmonized with the Resolutions which preceded it. It can be said with some accuracy, however, that the Resolutions formed the basis of the Act as passed.

We will now turn to the British North America Act, 1867, and as far as possible ascertain its intention from the language used. Sections 91 and 92 of the said Act are of the greatest importance relative to the matters now before us and are as follows:

POWERS OF THE PARLIAMENT

91. It shall be lawful for the Queen, by and with the advice and consent of the Senate and House of Commons, to make laws for the peace, order, and good government of Canada, in relation to all matters not coming within the classes of subjects by this Act assigned exclusively to the Legislatures of the Provinces, and for greater certainty, but not so as to restrict the generality of the foregoing terms of this section, it is hereby declared that (notwithstanding anything in this Act) the exclusive legislative authority of the Parliament of Canada extends to all matters coming within the classes of subjects next hereinafter enumerated; that is to say:

1. The public debt and property.
 2. The regulation of trade and commerce.
 3. The raising of money by any mode or system of taxation.
 4. The borrowing of money on the public credit.
 5. Postal service.
 6. The census and statistics.
 7. Militia, military, and naval service, and defence.
 8. The fixing of and providing for the salaries and allowances of civil and other officers of the government of Canada.
 9. Beacons, buoys, lighthouses, and Sable Island.
 10. Navigation and shipping.
 11. Quarantine and the establishment and maintenance of marine hospitals.
 12. Sea coast and inland fisheries.
 13. Ferries between a province and any British or foreign country or between two provinces.
 14. Currency and coinage.
 15. Banking, incorporation of banks, and the issue of paper currency.
 16. Savings banks.
 17. Weights and measures.
 18. Bills of exchange and promissory notes.
 19. Interest.
 20. Legal tender.
 21. Bankruptcy and insolvency.
 22. Patents of invention and discovery.
 23. Copyrights.
 24. Indians and lands reserved for the Indians.
 25. Naturalization and aliens.
 26. Marriage and divorce.
 27. The criminal law, except the constitution of courts of criminal jurisdiction, but including the procedure in criminal matters.
 28. The establishment, maintenance, and management of penitentiaries.
 29. Such classes of subjects as are expressly excepted in the enumeration of the classes of subjects by this Act assigned exclusively to the legislatures of the provinces.
- And any matter coming within any of the classes of subjects enumerated in this section shall not be deemed to come within the class of matters of a local or private nature comprised in the enumeration of the classes of subjects by this Act assigned exclusively to the legislatures of the provinces.

EXCLUSIVE POWERS OF PROVINCIAL LEGISLATURES

92. In each Province the Legislature may exclusively make laws in relation to matters coming within the classes of subjects next hereinafter enumerated; that is to say:

1. The amendment from time to time, notwithstanding anything in this Act, of the Constitution of the Province, except as regards the office of Lieutenant-Governor.

2. Direct taxation within the province in order to the raising of a revenue for provincial purposes.
3. The borrowing of money on the sole credit of the province.
4. The establishment and tenure of provincial offices and the appointment and payment of provincial officers.
5. The management and sale of the public lands belonging to the province and of the timber and wood thereon.
6. The establishment, maintenance, and management of public and reformatory prisons in and for the province.
7. The establishment, maintenance, and management of hospitals, asylums, charities, and eleemosynary institutions in and for the province, other than marine hospitals.
8. Municipal institutions in the province.
9. Shop, saloon, tavern, auctioneer, and other licenses in order to the raising of a revenue for provincial, local, or municipal purposes.
10. Local works and undertakings other than such as are of the following classes:
 - (a) Lines of steam or other ships, railways, canals, telegraphs, and other works and undertakings connecting the province with any other or others of the provinces, or extending beyond the limits of the province.
 - (b) Lines of steam ships between the provinces and any British or foreign country.
 - (c) Such works as, although wholly situate within the province, are before or after their execution declared by the Parliament of Canada to be for the general advantage of Canada or for the advantage of two or more of the provinces.
11. The incorporation of companies with provincial objects.
12. The solemnization of marriage in the province.
13. Property and civil rights in the province.
14. The administration of justice in the province, including the constitution, maintenance, and organization of provincial courts, both of civil and of criminal jurisdiction, and including procedure in civil matters in those courts.
15. The imposition of punishment by fine, penalty, or imprisonment for enforcing any law of the province made in relation to any matter coming within any of the classes of subjects enumerated in this section.
16. Generally all matters of a merely local or private nature in the province.

It will be noted that Section 91 provides *inter alia*:

1. That the enumeration of twenty-nine classes of Dominion powers was not to be in restriction of the general power to make laws for the peace, order, and good government of Canada.
2. That *notwithstanding anything in this Act* the exclusive legislative authority of the Parliament of Canada extends to the twenty-nine classes.

Hence Section 92 contains an exhaustive list of the powers of the provincial legislatures, while Section 91 does not contain an exhaustive list.

One has only to read the subjects set out in Section 91 to see that in their nature they are matters of general interest and importance to the whole of Canada. One has only to look at the enumeration in Section 92 to see that they are matters of provincial interest.

There are certain other provisions in the British North America Act, 1867, which illustrate the predominance of general over local matters and show

that the Fathers of Confederation did not have a narrow conception of the powers to be enjoyed by the General Parliament. The Dominion was given jurisdiction to disallow provincial legislation within one year of its enactment. (See Sections 56 and 90.) It would appear that this power was intended to be used and has been used by the Dominion primarily to prevent one province from imperilling the well-being of the whole country by ultra vires legislation.

There is also the power given to the Dominion to secure control of provincial works and undertakings by declaring them to be for the *general advantage* of Canada. See Section 92 (10) (b).

Under Section 132 the Dominion was empowered to give effect to the obligations of Canada or of any province thereof as part of the British Empire towards foreign countries arising under treaties between the Empire and such foreign countries.

Hence it can be said that an examination of the sections of the constitution would seem to make it clear:

1. That they embody the distinction between matters of general and matters of merely local concern, the one being for the Dominion, the other for the provinces.
2. That they provide for the supremacy of the Dominion, for not only are the provincial powers subject to restriction in favour of Dominion powers when conflict arises, but the ultimate residue is left with the Dominion.

Above are set out in brief form the particulars of the Confederation with which Canada began in 1867, consisting of the four provinces of Ontario, Quebec, New Brunswick and Nova Scotia. Subsequently five other provinces entered the Confederation, in the following order: Manitoba on July 15, 1870; British Columbia on July 20, 1871; Prince Edward Island on July 1, 1873; Alberta on September 1, 1905; Saskatchewan on September 1, 1905. Manitoba and the other four provinces which entered the Confederation subsequent to July 1, 1867, are subject to the above-mentioned provisions of the constitution in the same way as the said four original provinces of Canada.

It is, of course, not suggested that the British North America Act, 1867, and especially Sections 91 and 92, did not present any problems of interpretation for the courts. They do require interpretation of the import of the words assigning specific powers to the Dominion and the provinces. As new matters, i.e., the invention of radio, aircraft, etc., arose in the life of our country, and as new economic and social developments occurred, i.e., unemployment, minimum wages, hours of labour, etc., there was bound to come before the courts the question as to whether the Dominion or the provinces had jurisdiction. In disputed cases the law can only be ascertained after the court of last resort has made its adjudication.

How then has our constitution developed since July 1, 1867? What is the present situation relative to the distribution of legislative powers? These are questions of vital and immediate importance. It is difficult to be accurate and brief at the same time, because the Judicial Committee in a case in 1931 said:

With regard to ss. 91 and 92, the cases which have been decided on the provisions of these sections are legion. Many inquests have been held upon them, and many great lawyers have from time to time dissected them.*

In another case in 1936 the Judicial Committee said:

It is true that a Constitution must not be construed in any narrow and pedantic sense. The words used are necessarily general, and their full import and true meaning can often only be appreciated when considered, as the years go on, in relation to the vicissitudes of fact which from time to time emerge. It is not that the meaning of the words changes, but the changing circumstances illustrate and illuminate the full import of that meaning. It has been said that "in interpreting a constituent or organic statute such as the Act (i.e., the British North America Act), that construction most beneficial to the widest possible amplitude of its powers must be adopted."†

As regards the matters before us, we will now set out as far as possible the leading principles of interpretation which have been enunciated by the Judicial Committee in the cases which have come before it relative to the constitution of Canada.

It seems advisable to discuss this question under the following four divisions: (a) The provinces as independent and autonomous; (b) matters of national importance; (c) the regulation of trade and commerce; (d) taxation.

THE PROVINCES AS INDEPENDENT AND AUTONOMOUS

One of the most important principles of interpretation placed upon the constitution by the Judicial Committee is that the provinces are in no sense subordinate to the Dominion. They are independent and autonomous.

In *Hodge v. The Queen* (1883) 9 Appeal Cases, 117 at p. 132, the Privy Council through Sir Barnes Peacock said as follows:

It appears to their Lordships, however, that the objection thus raised by the appellants is founded on an entire misconception of the true character and position of the provincial legislatures. They are in no sense delegates of or acting under any mandate from the Imperial Parliament. When the British North America Act enacted that there should be a legislature for Ontario, and that its legislative assembly should have exclusive authority to make laws for the Province and for provincial purposes in relation to the matters enumerated in sect. 92, it conferred powers not in any sense to be exercised by delegation from or as agents of the Imperial Parliament, but authority as plenary and as ample within the limits prescribed by sect. 92 as the Imperial Parliament in the plenitude of its power possessed and could bestow. Within these limits of subjects and area the local legislature is supreme, and has the same authority as the Imperial Parliament, or the Parliament of the Dominion would have had under like circumstances to confide to a municipal institution or body of its own creation authority to make by-laws or resolutions as to subjects specified in the enactment, and with the object of carrying the enactment into operation and effect.

In *Liquidators of the Maritime Bank of Canada v. the Receiver-General of New Brunswick*, 1892 Appeal Cases, 437 at pp. 441-442, the Privy Council through Lord Watson held as follows:

*See in re the Regulation and Control of Aeronautics in Canada, 1932 Appeal Cases, 54 at p. 69.
†See *James v. Commonwealth of Australia*, 1936 Appeal Cases, 578 at p. 614.

Their Lordships do not think it necessary to examine, in minute detail, the provisions of the Act of 1867, which nowhere profess to curtail in any respect the rights and privileges of the Crown, or to disturb the relations then subsisting between the Sovereign and the provinces. The object of the Act was neither to weld the provinces into one, nor to subordinate provincial governments to a central authority, but to create a federal government in which they should all be represented, entrusted with the exclusive administration of affairs in which they had a common interest, each province retaining its independence and autonomy.

The above can be contrasted with the following passage in the speech of Honourable Attorney-General Macdonald (later Sir John A. Macdonald) in the confederation debates of 1865: "We make the Confederation one people and one government instead of five peoples and five governments—one united province with the local governments and legislatures subordinate to the General Government and Legislature."

MATTERS OF NATIONAL IMPORTANCE

For some years after Confederation, when the memories of the chaos and weaknesses which had preceded it were strong, the decisions of the courts may be said to have favoured what may be called a national interpretation of our constitution.

In the now famous case of *Russell v. the Queen* (1882) 7 Appeal Cases, 829, the Privy Council, on an appeal from the Supreme Court of Canada, speaking through Sir Montague E. Smith, gave an interpretation of the distribution of legislative power in Canada which seemed to be wholly in accord with the principles declared by the statesmen of all parties in 1867, and prior thereto, as we find them expressed in the published reports which are now available and which are referred to above. As a result of the *Russell* case, the Canada Temperance Act enacted by the Parliament of Canada was held to be valid on the ground that the matter was one of national concern to the whole of Canada.

The concluding paragraph in the judgment in the *Russell* case is as follows:

Their Lordships having come to the conclusion that the Act in question does not fall within any of the classes of subjects assigned exclusively to the Provincial Legislatures, it becomes unnecessary to discuss the further question whether its provisions also fall within any of the classes of subjects enumerated in sect. 91. In abstaining from this discussion, they must not be understood as intimating any dissent from the opinion of the Chief Justice of the Supreme Court of Canada and the other Judges, who held that the Act, as a general regulation of the traffic in intoxicating liquors throughout the Dominion, fell within the class of subject, "the regulation of trade and commerce," enumerated in that section, and was, on that ground, a valid exercise of the legislative power of the Parliament of Canada.

Obviously the *Russell* case supported the jurisdiction of the Parliament of Canada. Those who desired subsequently to argue in favour of the jurisdiction of the Dominion relied on the *Russell* judgment whenever possible.

But it would appear that the Judicial Committee at an early date indicated that they would not follow the judgment which had been delivered in the Russell case. During the argument of the case of the Great West Saddlery Co. v. the King, 1921-2 Appeal Cases 91, Viscount Haldane, who presided, referring to his experience before the Judicial Committee in the early days, said: "I think I may say—I had a long experience at the Bar in these cases in those days—that it was a tacit rule, a convention between judges and counsel that Russell v. the Queen was not to be cited, and we did not cite Russell v. the Queen."

But the Russell judgment still remained. Its spectre would not down. It continually troubled the courts and it had to be explained somehow. In the case of Toronto Electric Commissioners v. Snider, 1925 Appeal Cases 396, the Judicial Committee, speaking through Viscount Haldane, said as follows relative to the Russell case (pages 410-13):

A more difficult question arises with reference to the initial words of s. 91, which enable the Parliament of Canada to make laws for the peace, order and good government of Canada in matters falling outside the Provincial powers specifically conferred by s. 92. For Russell v. The Queen, 7 App. Cas. 829, was a decision in which the Judicial Committee said that it was within the competency of the Dominion Parliament to establish a uniform system for prohibiting the liquor traffic throughout Canada excepting under restrictive conditions. It has been observed subsequently by this Committee that it is now clear that it was on the ground that the subject matter lay outside Provincial powers, and not on the ground that it was authorized as legislation for the regulation of trade and commerce, that the Canada Temperance Act was sustained: see Attorney-General for Canada v. Attorney-General for Alberta (1916) 1 A.C. 588, 595. But even on this footing it is not easy to reconcile the decision in Russell v. The Queen with the subsequent decision in Hodge v. The Queen, 9 App. Cas. 117, that the Ontario Liquor License Act, with the powers of regulation which it entrusted to local authorities in the Province, was intra vires of the Ontario Legislature. Still more difficult is it to reconcile Russell v. The Queen with the decision given later by the Judicial Committee that the Dominion licensing statute, known as the McCarthy Act, which sought to establish a local licensing system for the liquor traffic throughout the Dominion, was ultra vires of the Dominion Parliament. As to this last decision it is not without significance that the strong Board which delivered it abstained from giving any reasons for their conclusion. They did not in terms dissent from the reasons given in Russell v. The Queen. They may have thought that the case was binding on them as deciding that the particular Canada Temperance Act of 1886 had been conclusively held valid, on the ground of fact that at the period of the passing of the Act the circumstances of the time required it in an emergency affecting Canada as a whole. The McCarthy Act, already referred to, which was decided to have been ultra vires of the Dominion Parliament, was dealt with in the end of 1885. Ten years subsequently another powerful Board decided Attorney-General for Ontario v. Attorney-General for the Dominion, known as the Distillers' and Brewers' case (1896) A.C. 348. Lord Herschell and Lord Davey, who had been the leading counsel in the McCarthy case, sat on that Board, along with Lord Halsbury, who had presided at it. In delivering the judgment, Lord Watson used in the latter case significant language at p. 362: "The judgment of this Board in Russell v. The Queen has relieved their Lordships from the difficult duty of considering whether the Canada Temperance Act of 1886 relates to the peace, order and good government of Canada, in such sense as to bring its provisions within the competency of the Canadian Parliament." That decision, he said, must be accepted as an authority to the extent to which it goes—namely, that "the restrictive pro-

visions of the Act of 1886, when they have been duly brought into operation in any Provincial area within the Dominion, must receive effect as valid enactments relating to the peace, order and good government of Canada."

The Board held that, on that occasion, they could, not inconsistently with *Russell v. The Queen*, declare a statute of the Ontario Legislature establishing Provincial liquor prohibitions, to be within the competence of a Provincial Legislature, provided that the locality had not already adopted the provisions of the Dominion Act of 1886.

It appears to their Lordships that it is not now open to them to treat *Russell v. The Queen* as having established the general principle that the mere fact that Dominion legislation is for the general advantage of Canada, or is such that it will meet a mere want which is felt throughout the Dominion, renders it competent if it cannot be brought within the heads enumerated specifically in s. 91. Unless this is so, if the subject matter falls within any of the enumerated heads in s. 92, such legislation belongs exclusively to Provincial competency. No doubt there may be cases arising out of some extraordinary peril to the national life of Canada, as a whole, such as the cases arising out of a war, where legislation is required of an order that passes beyond the heads of exclusive Provincial competency. Such cases may be dealt with under the words at the commencement of s. 91, conferring general powers in relation to peace, order and good government, simply because such cases are not otherwise provided for. But instances of this, as was pointed out in the judgment in *Fort Frances Pulp and Paper Co. v. Manitoba Free Press* (1923) A.C. 695, are highly exceptional. Their Lordships think that the decision in *Russell v. The Queen* can only be supported today, not on the footing of having laid down an interpretation, such as has sometimes been invoked of the general words at the beginning of s. 91, but on the assumption of the Board, apparently made at the time of deciding the case of *Russell v. The Queen*, that the evil of intemperance at that time amounted in Canada to one so great and so general that at least for the period it was a menace to the national life of Canada so serious and pressing that the National Parliament was called on to intervene to protect the nation from disaster. An epidemic of pestilence might conceivably have been regarded as analogous. It is plain from the decision in the Board of Commerce case (1922), 1 A.C. 191, that the evil of profiteering could not have been so invoked, for Provincial powers, if exercised, were adequate to it. Their Lordships find it difficult to explain the decision in *Russell v. The Queen* as more than a decision of this order upon facts, considered to have been established at its date rather than upon general law.

As might be expected, the courts in Canada were called upon to deal with the Canada Temperance Act after the judgment in the *Russell* case had been practically declared of no effect by the Judicial Committee in the *Snider* case. In the case of *Rex v. Varley* (1936), 1 D.L.R. 771, His Honour Judge Grout of Peel County Court in Ontario held that the Canada Temperance Act in its present form is ultra vires of the Parliament of Canada. In the case of *Rex v. Jones* (1936), 67 C.C.C. 228, the New Brunswick Supreme Court of three judges, following the interpretation of the *Russell* case which had been laid down in the *Snider* case, unanimously held the Canada Temperance Act ultra vires. We have thus followed the *Russell* judgment to its (for the present, in any event) last constitutional resting place.

The hope created immediately after and by the judgment in the *Russell* case did not long survive; in a series of well-known decisions, legislation enacted by the Parliament of Canada was held invalid when it was found not to be within one of the specific heads of Section 91 and when it did fall

within one of the specific heads of Section 92. The particular matter affected by some of these decisions and some particulars of same will now be given.

(1) *Liquor Traffic*.—As might be expected, the question of jurisdiction in liquor traffic matters came before the courts subsequent to the Russell case decision. In the reference in re Liquor License Act, 1883, and Act amending, known as the McCarthy Act Reference (1885), 4 Cartwright, p. 342, the legislation enacted by the Parliament of Canada* was referred to the Supreme Court of Canada, where it was held *ultra vires*. An appeal was taken to the Judicial Committee, which upheld the view of the Supreme Court of Canada.

The said Dominion legislation provided for the appointment by the Dominion of a Board of License Commissioners throughout Canada, consisting of a county court judge, a warden of a county or a mayor of a city, and a third commissioner to be appointed by the Governor-in-Council. The legislation provided for licenses to be issued to hotels, saloons, shops, etc., and empowered the Board to make regulations defining conditions and qualifications requisite to the obtaining of licenses and providing penalties for selling liquor without a Dominion license.

A strong Board of the Judicial Committee heard the appeal in London, England, in this McCarthy Act Reference and, as already stated in the part quoted above from the Snider case, it is not without significance that it abstained from giving reasons for its conclusions. Doubtless the Russell case caused some confusion and trouble to the Board when delivering judgment in the McCarthy Act Reference. It is unfortunate that no reasons for judgment are available in this reference. The many occasions on which the finding has been quoted show that it was and is a pronouncement in constitutional matters of the highest importance.

At this point it is advisable to refer to two other decisions relating to the liquor traffic. They are frequently quoted in constitutional matters. In each it was legislation enacted by the legislature of a province which was under consideration, but important constitutional principles, etc., were laid down. These two cases are: (1) Attorney-General for Ontario v. Attorney-General for the Dominion (known as the Distillers' and Brewers' case), 1896 Appeal Cases, 348. (2) Attorney-General of Manitoba v. Manitoba License Holders' Association (known as the Manitoba License Holders' case), 1902 Appeal Cases, 73.

In the said case of Attorney-General for Ontario v. Attorney-General for the Dominion, the judgment of the Judicial Committee was directed to the answers to be given to certain questions submitted by the Governor-in-Council to the Supreme Court of Canada, all of which questions immediately concerned the jurisdiction of a provincial legislature in respect of the prohibition of certain phases of the liquor traffic. It is advisable to set out two sentences which occur in the discussion of the seventh question, which relates

*The Liquor License Act, 1883, chapter 30 of 46 Victoria, Statutes of Canada; an Act to amend the Liquor License Act, 1883, chapter 32 of 47 Victoria, Statutes of Canada

to the jurisdiction of the Ontario Legislature to enact a section of a statute of that province entitled "An act respecting local option in the matter of liquor selling." In the course of that discussion their Lordships of the Judicial Committee dealt with the general authority given to the Parliament of Canada under the peace, order, and good government clause of Section 91 and their Lordships observed (see p. 417 of 1936 S.C.R.):

... to those matters which are not specified among the enumerated subjects of legislation, the exception from s. 92, which is enacted by the concluding words of s. 91, has no application; and, in legislating with regard to such matters, the Dominion Parliament has no authority to encroach upon any class of subjects which is exclusively assigned to provincial legislatures by s. 92. These enactments appear to their Lordships to indicate that the exercise of legislative power by the Parliament of Canada, in regard to all matters not enumerated in s. 91, ought to be strictly confined to such matters as are unquestionably of Canadian interest and importance, and ought not to trench upon provincial legislation with respect to any of the classes of subjects enumerated in s. 92. To attach any other construction to the general power which, in supplement of its enumerated powers, is conferred upon the Parliament of Canada by s. 91, would, in their Lordships' opinion, not only be contrary to the intentment of the Act, but would practically destroy the autonomy of the provinces. If it were once conceded that the Parliament of Canada has authority to make laws applicable to the whole Dominion, in relation to matters which in each province are substantially of local or private interest, upon the assumption that these matters also concern the peace, order and good government of the Dominion, there is hardly a subject enumerated in s. 92 upon which it might not legislate, to the exclusion of the provincial legislatures.

Their Lordships then proceeded in two sentences which are frequently referred to and which are as follows:

Their Lordships do not doubt that some matters, in their origin local and provincial, might attain such dimensions as to affect the body politic of the Dominion, and to justify the Canadian Parliament in passing laws for their regulation or abolition in the interest of the Dominion. But great caution must be observed in distinguishing between that which is local and provincial, and therefore within the jurisdiction of the provincial legislatures, and that which has ceased to be merely local or provincial, and has become matter of national concern, in such sense as to bring it within the jurisdiction of the Parliament of Canada.

It is obvious that the language of the parts quoted above is carefully guarded and the two sentences referred to, if properly understood, should be read with the preceding sentences. It does not say that every matter which attains such dimensions as to affect the body politic of the Dominion falls thereby within the introductory matter of Section 91, but "some matters" may attain such dimensions as to affect the body politic of the Dominion and the sentence ought to be read having regard to the context in such manner and degree as may justify the Parliament of Canada in passing laws for their regulation or abolition. In the second sentence all matters of "national concern" in the broadest sense of those words are not dealt with, but only those which are matters of "national concern" in such sense as to bring them within the jurisdiction of the Parliament of Canada.

In the said Ontario case the Judicial Committee stated as follows relative to the Russell case:

The controversy (in the Russell case) related to the validity of the Canada Temperance Act of 1878; and neither the Dominion nor the provinces were represented in the argument. It arose between a private prosecutor and a person who had been convicted, at his instance, of violating the provisions of the Canadian Act within a district of New Brunswick in which the prohibitory clauses of the Act had been adopted. . . .

It therefore appears that the decision in *Russell v. Reg.* must be accepted as an authority to the extent to which it goes, namely, that the restrictive provisions of the Act of 1886, when they have been duly brought into operation in any provincial area within the Dominion must receive effect as valid enactments relating to the peace, order and good government of Canada.

In the said Ontario case the Judicial Committee held that it was not incompetent for a provincial legislature to pass a measure for the repression, or even the total abolition, of the liquor traffic within the province, provided the subject is dealt with as a matter "of a merely local nature" in the province and the act itself is not repugnant to any act of the Parliament of Canada.

In the Manitoba License Holders' case, the Judicial Committee upheld the Manitoba Liquor Act of 1900 for the suppression of the liquor traffic in the province as coming within Subhead 16 of Section 92 of the British North America Act, 1867, rather than within Subhead 13. One significant part of the judgment reads as follows (see p. 419 of 1936 S.C.R.): "Indeed, if the case is to be regarded as dealing with matters within the class of subjects enumerated in No. 13, it might be questionable whether the Dominion Legislature could have authority to interfere with the exclusive jurisdiction of the province in the matter." That is, it was doubtful if the Canada Temperance Act could be sustained as valid legislation by the Dominion on the assumption that the matters dealt with by the statute were comprised within the class of subjects enumerated in Subhead 13 of Section 92.

(2) *Through traffic on provincial railways.*—This point came before the Judicial Committee in the case of *City of Montreal v. Montreal Street Railway*, 1912 Appeal Cases, 333, referred to as the *Montreal Street Railway* case. In this case it was held that it was incompetent for the Parliament of Canada to legislate as to through traffic over a provincial railway. The judgment deals with the jurisdiction of the Dominion under the peace, order, and good government clause, and also under the regulation of trade and commerce heading. The judgment may be said to be one of the most important delivered by the Judicial Committee.

(3) *Insurance.*—The matter of the control of the business of insurance is of far-reaching significance by reason of the enormous growth of the various classes of insurance and the many persons and businesses affected thereby. It may be said with substantial accuracy that the business of insurance in its various aspects interests every citizen of Canada, as well as every business concern. Hence one does not need to quote figures in order to establish that the business of insurance has grown from a local matter to one of very great national importance.

When at the Quebec Conference the Fathers of Confederation came to differentiate between Dominion and provincial authority, the matter of insurance came up for consideration. It was proposed to give to the General Legislature the power to pass laws "for the regulation and incorporation of fire and life insurance companies," but this proposal was dropped. As a result, the subject of insurance is not specifically mentioned in the British North America Act, 1867.

At an early date after Confederation the Dominion and the provinces forthwith proceeded to exercise whatever jurisdiction they thought they had in relation to insurance. As might be expected, litigation ensued, and for some fifty years the courts have been called upon to decide whether the Parliament of Canada or the legislatures of the provinces have jurisdiction to pass legislation for the control of the business of insurance.

One ground which the Dominion authorities have urged to establish the jurisdiction of the Parliament of Canada in matters of insurance has been that the business of insurance is a matter of national importance. This, however, was brushed aside by Viscount Haldane, who delivered the judgment of the Privy Council in the case of *Attorney-General for Canada v. Attorney-General for Alberta* (1916), 1 Appeal Cases, 588. At page 597 is found the following:

No doubt the business of insurance is a very important one, which has attained to great dimensions in Canada. But this is equally true of other highly important and extensive forms of business in Canada which are today freely transacted under provincial authority. Where the British North America Act has taken such forms of business out of provincial jurisdiction, as in the case of banking, it has done so by express words which would have been unnecessary had the argument for the Dominion Government addressed to the Board from the Bar been well founded.

The litigation as to the matter of insurance has been uniformly in favour of the provinces. In the last judgment delivered by the Privy Council in re the Insurance Act of Canada, 1932 Appeal Cases, 41, it was stated in the judgment as follows: "This case is, it may be hoped, the last of the series of litigations between the Dominion and the Provinces with regard to insurance."

After the 1932 judgment of the Privy Council, in 1932 Appeal Cases at pages 41, etc., the Dominion authorities recast their legislation. A glance at: the Department of Insurance Act; an Act respecting Canadian and British Insurance Companies; an Act respecting Foreign Insurance Companies in Canada (which are, respectively, chapters 45, 46, and 47 of the statutes of Canada, 1932) will disclose the very limited jurisdiction of the Parliament of Canada in regard to insurance as matters stand at present under our constitution.

From a business standpoint it would appear most advisable to have one central authority with exclusive jurisdiction in relation to insurance. At present, as a result of the provinces of Canada having jurisdiction over the business of insurance, we have in Canada nine provincial Departments of Insurance. In addition, the Dominion Department of Insurance also functions

in exercising the limited jurisdiction which it has or believes it has. In all, there are ten jurisdictions in insurance matters in Canada.

(4) *Evils of profiteering in dealings in the necessities of life; regulating prices of necessities of life.*—It would seem that the above matter can surely be said to relate to the general interest of the whole of Canada and to be of common import to all the provinces. In the case of *in re Board of Commerce Act, 1919*, and the *Combines and Fair Prices Act, 1919*, frequently referred to as the *Board of Commerce case*, the Judicial Committee held that legislation as to such matters was not within the jurisdiction of the Parliament of Canada. The situation can be summed up by quoting the following from pages 422-23 of 1936 Supreme Court of Canada Reports:

In this Board of Commerce case the Judicial Committee had to consider legislation by which a Dominion Board was constituted and empowered, broadly speaking, to inquire into, and prohibit, profiteering and practices in connection therewith in dealings in the necessities of life. In particular, the Board had authority to regulate the prices of such necessities of life.

The question arose upon a case stated as to the validity of an order made by the Board regulating the prices of ready made clothing in certain establishments in Ottawa. The validity of the order was attacked by the associations of manufacturers concerned and was supported by counsel on behalf of the Board and of the Dominion. The litigation raised the concrete question *inter partes* as to the legality of the particular order; and the answer to that question turned upon the answer to the question concerning the validity of the legislation, which it was, therefore, essential to determine. The statute was supported on various grounds and, among others, on the ground that in the year 1919, when it was enacted, the evils of hoarding and high prices in respect of the necessities of life had attained such dimensions "as to affect the body politic of Canada." Nobody denied the existence of the evil. Nobody denied that it was general throughout Canada. Nobody denied the importance of suppressing it. Nobody denied that it prejudiced and seriously prejudiced the well being of the people of Canada as a whole, or that in a loose, popular sense of the words it "affected the body politic of Canada." Nevertheless, it was held that these facts did not constitute a sufficient basis for the exercise of jurisdiction by the Dominion Parliament under the introductory clause in the manner attempted. The Board said that in special circumstances, such as those of a great war, the interest of the Dominion in the matters might conceivably become of such paramount and overriding importance as to lie outside the heads of section 92 and not be covered by them. But it is, they held, quite another matter to say that under normal circumstances, general Canadian policy can justify interference, on the scale of the statutes then in controversy, with the property and civil rights of the inhabitants of the provinces.

It has already been observed that circumstances are conceivable, such as those of war or famine, when the peace, order and good government of the Dominion might be imperilled under conditions so exceptional that they require legislation of a character in reality beyond anything provided for by the enumerated heads in either s. 92 or s. 91 itself. Such a case, if it were to arise, would have to be considered closely before the conclusion would properly be reached that it was one which could not be treated as falling under any of the heads enumerated. Still, it is a conceivable case, and although great caution is required in referring to it, even in general terms, it ought not, in the view their Lordships take of the *British North America Act*, read as a whole, to be excluded from what is possible. For throughout the provisions of that Act there is apparent the recognition that subjects which would normally belong exclusively to a specifically assigned class of subject may, under different

circumstances and in another aspect, assume a further significance. Such an aspect may conceivably become of paramount importance, and of dimensions that give rise to other aspects. This is a principle which, although recognized in earlier decisions, such as that of *Russell v. The Queen* (1881), 7 A.C. 829, both here and in the Courts of Canada, has always been applied with reluctance, and its recognition as relevant can be justified only after scrutiny sufficient to render it clear that the circumstances are abnormal. In the case before them, however important it may seem to the Parliament of Canada that some such policy as that adopted in the two Acts in question should be made general throughout Canada, their Lordships do not find any evidence that the standard of necessity referred to has been reached, or that the attainment of the end sought is practicable, in view of the distribution of legislative powers enacted by the Constitution Act, without the co-operation of the Provincial Legislatures.*

(5) *Industrial disputes*.—The above is a matter which in many cases may be said to be national in its effects. The Judicial Committee in the case of *Toronto Electric Commissioners v. Snider*, 1925 Appeal Cases, 396, held that the Parliament of Canada, in so far as the particular business there under consideration was concerned, had no jurisdiction to enact the Industrial Disputes Investigation Act, 1907, being chapter 20 of 6 and 7 Edw. VII, Statutes of Canada.

(6) *Unemployment insurance*.—The existence of unemployment in Canada to an extent that has taxed very severely the resources of the country is a fact of general public interest and affects the whole body politic of Canada rather than that of any particular province, and the public statutes and the public accounts of the various jurisdictions in Canada show to what extent relief has had to be provided by the public treasury to mitigate the effects of unemployment. It can be said with reason that unemployment is and especially since the Great War has been a national evil—a matter which has become a national one in every sense. It has been urged that unemployment to the extent to which it exists to-day is one of the aftermaths of the Great War.

It is worthy of note that legislation on the subject was enacted by the Parliament of Canada in 1935 being the Employment and Social Insurance Act. This legislation was an attempt to cope with one of the problems which had presented itself to the Canadian people and which had reached such nation wide importance as to need a national remedy. The legislation was referred to the courts and the Privy Council held that (see 1937 Appeal Cases, 355):

The Employment and Social Insurance Act, 1935, of the Parliament of Canada, which in substance provided for a system of compulsory unemployment insurance throughout Canada, was *ultra vires* of the Dominion Parliament. In pith and substance the Act was an insurance Act affecting the civil rights of employers and employed in each province and was accordingly within the exclusive competence of the Provincial Legislatures under s. 92, head 13, of the British North America Act, 1867, which provided that "In each Province the Legislature may exclusively make laws in relation to . . . (13) Property and civil rights in the Province."

It is reasonable to state that it is exceedingly difficult, if not impossible, to visualize a satisfactory scheme of unemployment insurance which

*1922—1 Appeal Cases, 191 at p. 200. It may be noted that here the Judicial Committee used the words "standard of necessity."

would be only provincial in its scope. Hence we can say that the attempt of the Dominion authorities to cope with the evil of unemployment, an important national matter, failed because our constitution as interpreted by our highest tribunal, guided by the cases already decided, could not adapt itself to the new requirements.

In this matter of unemployment the following from page 241 of Maxwell's *Federal Subsidies to the Provincial Governments in Canada* is of interest:

The onset of depression thus found the provincial governments in a vulnerable fiscal position. Their revenue systems were relatively inflexible, their credit was weak, and yet they were confronted by imperative demands for new expenditures. Cuts in salaries and curtailment in ordinary programmes were general in all the provinces, but expenditure for unemployment relief and for regular public welfare purposes rose sharply. The growth in the latter—old-age pensions, mothers' allowances, hospitals, et cetera—was in part an incident of the depression; when private provision for the poor and aged faltered, the provincial governments felt impelled to assume a larger share. But in part it was a continuation and an acceleration of tendencies which were visible earlier. Expenditure for unemployment relief was, of course, a result of the depression, and it was provided through borrowing. During the four years 1929-1933 provincial bonded debt and treasury bills grew from \$848,501,200 to \$1,255,713,300, and almost all of the increase was disbursed as unemployment relief. The federal government, beginning in 1930, undertook to share the cost of provincial and municipal expenditure on programmes of public works and on direct relief. In general the basis was 50-50. In 1931 the four western provinces reached the limit of their ability to tax and to borrow, and the federal government had to come to their assistance with loans and special grants in order to prevent default. On March 31, 1936, the federal government had loans outstanding to certain provincial governments as follows:

Manitoba	\$ 15,504,900
Saskatchewan.....	48,368,600
Alberta.....	25,081,000
British Columbia	27,572,700
Total	\$116,527,200

One can visualize how suddenly economic conditions may change by recalling that a Dominion-Provincial Conference was held at Ottawa in November, 1927. At this conference the financial arrangements, etc., between the Dominion and the provinces were thoroughly discussed. The matter of federal subventions for unemployment relief, however, was scarcely touched upon at that conference because the depression had not been reached at that time and the problem was not so acute.

(7) *Weekly rest, minimum wages, hours of labour.*—The above are grouped together since they were so treated in the reference to the courts to determine the validity of the three statutes enacted by the Parliament of Canada in relation to same respectively. (See 1936 Supreme Court of Canada Reports, 461; 1937 Appeal Cases, 326.) These are matters of momentous importance to Canada. The establishment of world living standards is surely a national matter.

The Judicial Committee in its judgment in these matters first dealt with the contention that the three statutes in question were valid because they

were passed in accordance with Conventions adopted by the International Labour Organization of the League of Nations in accordance with the Labour Part of the Treaty of Versailles of June 28, 1919. This contention was rejected and the Committee held that the Dominion "by making promises to foreign countries could not clothe itself with legislative authority inconsistent with the constitution which gave it birth," and then dealt with the contention that the said legislation was valid under the national aspect principle. The portion of the judgment which deals with this is as follows:

But the validity of the legislation under the general words of s. 91 was sought to be established not in relation to the treaty-making power alone, but also as being concerned with matters of such general importance as to have attained "such dimensions as to affect the body politic," and to have "ceased to be merely local or provincial," and to have "become matter of national concern." It is interesting to notice how often the words used by Lord Watson in *Attorney-General for Ontario v. Attorney-General for the Dominion* (1896, A.C. 348), have unsuccessfully been used in attempts to support encroachments on the Provincial legislative powers given by s. 92. They laid down no principle of constitutional law, and were cautious words intended to safeguard possible eventualities which no one at the time had any interest or desire to define. The law of Canada on this branch of constitutional law has been stated with such force and clarity by the Chief Justice in his judgment in the reference concerning the Natural Products Marketing Act (1936), Can. S.C.R. 398, at 414 et seq, dealing with the six Acts there referred to, that their Lordships abstain from stating it afresh. The Chief Justice, naturally, from his point of view, excepted legislation to fulfil treaties. On this their Lordships have expressed their opinion. But subject to this, they agree with and adopt what was there said. They consider that the law is finally settled by the current of cases cited by the Chief Justice on the principles declared by him. It is only necessary to call attention to the phrases in the various cases, "*abnormal circumstances*," "*exceptional conditions*," "*standard of necessity*" (Board of Commerce case (1922), 1 A.C. 191), "*some extraordinary peril to the national life of Canada*," "*highly exceptional*," "*epidemic of pestilence*" (Snider's case (1925), A.C. 396), to show how far the present case is from the conditions which may override the normal distribution of powers in ss. 91 and 92. The few pages of the Chief Justice's judgment will, it is to be hoped, form the locus classicus of the law on this point, and preclude further disputes.*

One must note the language of the italicized phrases above, none of which is in the language of the British North America Act, 1867. They seem to have gone much further than the Fathers of Confederation contemplated, as shown in the extracts from the speeches already quoted.

(8) *Old-age pensions and pensions for the blind*.—The above are matters of the greatest importance to the whole body politic in the consideration of what is generally referred to as "social legislation." Legislation has been enacted by the Parliament of Canada in relation to these matters. The Dominion legislation in effect enacts that the Governor-in-Council may make an agreement with any province which adopts an old-age pension scheme or provides for pensions for the blind. By this agreement the federal Government binds itself to contribute three-fourths of the cost of these pensions, provided that the provincial law fulfils certain conditions mentioned in the federal law.

*See 1937 Appeal Cases, 326 at pp. 352-53.

This legislation has apparently not come before the courts for consideration. But according to the decided cases, the matter of these pensions may be held to come within the jurisdiction of the provinces, and hence the question arises as to whether or not, under our constitution, the Dominion Government can legally use its funds to assist the provinces in carrying out these undertakings.

Perhaps Section 102 of the British North America Act, 1867, may require consideration by the courts in coming to a decision as to the validity of the scheme of old-age pensions and pensions for the blind now prevailing. Do the words "the Public Service of Canada" in said Section 102 refer only to such matters as come within the specific heads of Section 91 or do they refer to any and all matters?

In the judgment of the Judicial Committee in the Employment and Social Insurance Act Reference (1937 Appeal Cases, 355), the following is stated at p. 366: "But assuming that the Dominion has collected by means of taxation a fund, it by no means follows that any legislation which disposes of it is necessarily within Dominion competence."

Honourable C. H. Cahan, the member at Ottawa for the constituency of St. Lawrence-St. George in Quebec, when speaking on April 5, 1937, in the House of Commons in regard to these constitutional matters, said as follows (referring to the decision of the Judicial Committee in the reference re the Employment and Social Insurance Act):

This opinion, if it is valid, raises grave doubt as to the validity of appropriations by this Dominion Parliament of current revenues for such objects as old-age pensions, unemployment relief, or for giving assistance to provincial undertakings of any description. If these appropriations are illegal and beyond the competence of the Dominion, grave consequences may follow, and the government would be well advised to obtain a direct decision upon this issue at a very early date.*

(9) *Legislation as to child labour and sweat shops, and other forms of social legislation.*—All the above matters are apparently in the same category as the subjects of weekly rest, minimum wages, and hours of labour. Legislation as to same in normal times might be held, following the decided cases, not to come within the jurisdiction of the Parliament of Canada, but within the jurisdiction of the provinces.

(10) *Grain trade.*—One would say that the grain trade of Canada could surely be classed as a matter of national concern and one of such dimensions as to affect the body politic of the Dominion, but on April 17, 1922, the law officers of the Dominion expressed the opinion that under the decided cases the reconstruction of the Wheat Board "is a project constitutionally incompetent to the Parliament of Canada." And in 1925 certain parts of the Canada Grain Act enacted by the Parliament of Canada were held ultra vires by the Supreme Court of Canada, which was guided in its judgment by the decided cases. (See *His Majesty the King v. Eastern Terminal Elevator Company*, 1925 S.C.R. 434.)

*See p. 2775 of House of Commons Debates, Official Report, unrevised edition, for Monday, April 5, 1937.

Section 234 of the Canada Grain Act (chapter 33 of the Statutes of Canada, 1925) was enacted by the Parliament of Canada so as to enable Parliament to legislate for the grain trade. This Section 234 was replaced in identical terms by Section 233 of the Canada Grain Act (chapter 86 of the Revised Statutes of Canada, 1927). This Section 233, which is now in force, is as follows:

233. All grain elevators and warehouses, of whatever variety or kind, mentioned in this Act, including public elevators, private elevators, eastern elevators, terminal elevators, mill elevators, manufacturing and country elevators, whether heretofore constructed or hereafter to be constructed, are and each of them is hereby declared to be works or a work for the general advantage of Canada; and for greater certainty but not to so restrict the generality of the foregoing terms of this section it is hereby declared that each and every one of the grain elevators mentioned or described in the Second Schedule to this Act is a work for the general advantage of Canada.

In the said second schedule are set out the names, particulars, etc., of some hundreds of grain elevators throughout Canada. That is, the Dominion utilized the provisions of Section 92 (10) (b) of the constitution in order to acquire jurisdiction over the grain trade.

It is submitted that the procedure outlined above seems an undignified, indirect, and clumsy method to enable the national Parliament to obtain jurisdiction in a matter concerning the well-being of so many citizens of Canada.

(11) *Governmental regulation of business.*—It appears to be recognized by sound and conservative business men that some degree of governmental regulation of business to enforce uniform conditions of competition is necessary to ensure that industry shall be conducted fairly in the interests of Canada as a whole. The matter of regulation of business appears to be one which should come under the jurisdiction of the Parliament of Canada. The matter is surely a national one.

The Parliament of Canada in order to improve the methods and practices of marketing of natural products in Canada and in export trade and to make further provision in connection therewith enacted the Natural Products Marketing Act, 1934 (chapter 57 of the Statutes of Canada, 1934); and the Natural Products Marketing Act Amendment Act, 1935 (chapter 64 of the Statutes of Canada, 1935). The scope, etc., of said legislation has been described as follows:

The said legislation consists of two parts. The first provides for the establishment of a Dominion Marketing Board whose powers include powers to regulate the time and place at which, and the agency through which, natural products to which an approved scheme relates shall be marketed, and to determine the manner of distribution and the quantity, quality, grade or class of the product that shall be marketed by any person at any time, and to prohibit the marketing of any of the regulated products of any grade, quality or class.

There are other regulatory powers which need not be further specified. A scheme to regulate the marketing of a natural product is initiated by a representative number of persons engaged in the production or marketing of the natural product. It can be referred by the appropriate Minister to the Board, and if they approve the scheme as submitted or amended by them, and it is further approved by the Minister, the

Governor-General in Council may approve the scheme. It is essential that the Governor-General in Council shall be satisfied either that the principal market for the natural product is outside the Province of production, or that some part of the product produced may be exported. The latter provision makes it clear that the regulation may apply to marketing transactions in natural products which have nothing to do with foreign export or interprovincial trade. If the Minister is satisfied that trade and commerce in a natural product are injuriously affected by the absence of a scheme prepared as above he may himself propose a scheme for approval by the Governor in Council. The Governor in Council is given power by order or regulation to regulate or restrict importation into Canada of a natural product which enters Canada in competition with a regulated product; and to regulate or restrict the exportation from Canada of any natural product. Part II contains provision for the appointment by the Minister of a Committee who may be entrusted with the duty of investigating all matters connected with the production or marketing of natural or regulated products for the purpose of ascertaining the charges made in distribution of a natural or regulated product. The receipt against the interest of the public of an excessive charge is made an indictable offence, and there are provisions for the trial of such offences.*

This legislation was referred to the Supreme Court of Canada in order to determine its validity. The court unanimously held that the legislation was invalid and in so deciding dealt fully and elaborately with the contention that the legislation came within the peace, order, and good government clause of Section 91. (See 1936 S.C.R. 398 at pp. 414, etc.) On appeal to the Judicial Committee the judgment of the Supreme Court of Canada was upheld. (See 1937 Appeal Cases, 377.)

(12) *Treaty-performing power in cases which do not come within Section 132.*—This topic is intimately bound up with the subject of matters of national importance. This matter of the treaty-performing power in cases which do not come within Section 132 of the British North America Act, 1867, was decided by the Judicial Committee in the case of the Attorney-General for Canada v. the Attorney-General for Ontario, in the matter of a reference as to whether the Weekly Rest in Industrial Undertakings Act, the Minimum Wages Act, and the Limitation of Hours of Work Act are ultra vires of the Parliament of Canada. (See 1937 Appeal Cases, 326.)

In the Treaty of Versailles, to which Canada was a signatory, the principal powers of the world declared that the matters dealt with by the Conventions which were before the courts in the said reference were matters of grave international concern affecting the peace of the world and affecting economic conditions throughout the world.

The primary purpose of said Conventions was doubtless to secure such uniformity of conditions of labour throughout the world as would prevent countries with a high standard of living, such as Canada, from suffering from undue competition with countries with a low standard of living. Hence for Canada the matter had an international aspect as well as an inter-provincial one and national one.

Hence it appeared reasonable to say that the legislation to implement the Conventions could not properly be classed as legislation in relation to a

**Canadian Bar Review*, June, 1937, pp. 409-10.

subject of a private and local nature and therefore under the jurisdiction of the provinces, but was legislation in relation to a matter of grave national importance and therefore within the jurisdiction of the Parliament of Canada.

However, in the above case the Judicial Committee held that for the purposes of Sections 91 and 92 there is no such thing as treaty legislation as such. As a treaty (which does not come within Section 132) deals with a particular class of subjects, so will the legislative power of performing it be ascertained. That is, the test as to competence to enact any legislation in aid of a treaty depends on the correspondence of its subject-matters with classes of subjects enumerated in Sections 91 and 92.

Lord Atkin, who delivered the said judgment of the Judicial Committee in the treaty case, observed in dealing with the Dominion's power to implement treaties that "While the Canadian ship of state now sails on larger ventures and into foreign waters she still retains the watertight compartments which are an essential part of her original structure." This must cause some concern to anyone interested in national unity in Canada. It means that treaties, conventions, etc., which do not fall within Section 132 can only be implemented by combined legislation of the nine provinces of Canada and the Parliament of Canada. And when one recalls the different conditions which exist in the nine provinces of Canada, conditions which may vary by as great a distance as separates the Atlantic from the Pacific, there will be apparent the difficulties which confront Canada in having enacted in each province the legislation necessary to implement a treaty.

(13) *Emergency*.—Since Confederation, in one other instance than the Russell case, the Privy Council has upheld legislation by the Parliament of Canada in a matter normally within one of the heads of Section 92 which did not come within the specific heads of Section 91. This was in the case of *Fort Frances Pulp and Power Company, Limited v. Manitoba Free Press Company, Limited et al* (1923 Appeal Cases, 695), which upheld legislation enacted by the Parliament of Canada dealing with controlled prices of newsprint. In this case the Privy Council held:

1. That in normal circumstances the Dominion Parliament could not have legislated to set up the machinery of control over the paper manufacturers which was then in question.

2. That in case of sudden danger to social order arising from the outbreak of a great war the Dominion Parliament may act under other powers which may well be implied in the constitution.

3. That it is proprietary and civil rights in new relations which they do not present in normal times which have to be dealt with; and these relations which affect Canada as an entirety fall within Section 91 because in their fullness they extend beyond what Section 92 can really cover.

4. That in a sufficiently great emergency such as that arising out of war there is implied the power to deal adequately with that emergency for the safety of the Dominion as a whole.

5. That the enumeration in Section 92 is not in any way repealed in the event of such an occurrence but a new aspect of the business of government is recognized as emerging, an aspect which is not covered or precluded by the general words in which powers are assigned to the legislatures of the provinces as individual units.*

As the Russell judgment has now been practically discarded and as the Fort Frances case was one of "emergency," it follows that since Confederation no legislation enacted by the Parliament of Canada in normal circumstances with regard to matters which were admittedly *ex facie* within one of the heads of Section 92 has been upheld as being in relation to matters of national importance if it did not come within the specific heads of Section 91.

Distinction between general powers and specific powers of the Dominion.—The decided cases referred to above (to quote from an article on the "Development of Canadian Federalism" in the 1931 Proceedings of the Canadian Political Science Association) indicate that the Judicial Committee has drawn what would seem to be a totally unjustifiable distinction between the general power of the Parliament of Canada to legislate for the peace, order, and good government of Canada, and its special powers over the specific twenty-nine subjects set out in Section 91. These twenty-nine enumerated subjects were given, in the words of the Act, "for greater certainty but not so as to restrict the generality of the general power." They were simply illustrations of a general principle inserted so as to avoid any doubt as to the national control of certain essentially national matters. Yet under the decisions of the Privy Council they would seem to have become in effect the sole sources of Dominion power. The illustrations have swallowed up the rule, and it has become virtually impossible to justify any Dominion legislation unless it can be brought under one of the twenty-nine specific headings. The Fathers of Confederation planted in Canada a living tree, capable of growth and expansion within its natural limits. They gave us a living and elastic principle fit for every emergency; the Privy Council has made of it a dead and rigid test. According to the decided cases, the Parliament of Canada is permitted to interfere incidentally with provincial powers when legislating upon one of its specifically named special powers, like bills of exchange and promissory notes (head 18), or bankruptcy and insolvency (head 21), or criminal law (head 27), but cannot so interfere when exercising the general power itself.

As a result of this interpretation the residuary power of the Dominion over matters of national importance, so explicitly preserved by the opening words of Section 91 and so emphasized by the Fathers at the time of Confederation, has been cut down to the vanishing point. It still exists, but the Judicial Committee has held it can be utilized only in times of great national emergency, such as a great war, a pestilence, or a plague. (See, for example, *Toronto Electric Commissioners v. Snider*, 1925 Appeal Cases, 396, at p. 412.)

As regards national matters, the Dominion Parliament is restricted, except in cases of emergency, to such specific subjects as occurred to those who framed our constitution in times when Canada and her economic, agricultural, and social development were in their infancy.

*See 67 Canadian Criminal Cases at p. 236.

It follows that if in normal times a Dominion statute of great and common interest to all the provinces and deemed necessary for the good government of Canada, but not falling within the specific heads of Section 91, should be found to touch upon any provincial power, the courts will declare same ultra vires and of no effect.

As can be seen from the decided cases, one of the important provincial powers is "property and civil rights," which is a very wide term and if interpreted literally would extend to much of the field covered by the other heads of Section 92 and also to much of the field covered by Section 91. It is almost impossible to conceive of any general legislation which would not come within "property and civil rights."

As a result, the federal legislative powers in Canada are now normally only those specifically enumerated in Section 91, while the provincial powers are equally defined and enumerated in Section 92. The Dominion can only invade provincial powers in the valid exercise of its enumerated powers.

Hence it follows that the real residuum of powers, except in cases of national peril and calamity or domestic convulsions, rests with the provinces, under their exclusive power over property and civil rights in the provinces.

In the United States constitution "The powers not delegated to the United States by the Constitution nor prohibited by it to the States are reserved to the States respectively or to the people." From what was stated by the Fathers of Confederation it is clear they intended in our constitution to avoid the great evil of "states' rights" which had led to the American Civil War. As a result of the above judgments, however, we in Canada appear in this important respect of residuum of powers to have arrived at the very opposite of what was intended by the Fathers of Confederation. We have arrived at the doctrine of states' rights in the interpretation of the constitution of Canada.

THE REGULATION OF TRADE AND COMMERCE

Under the above Subhead 2 of Section 91 of the British North America Act, 1867, the Parliament of Canada exclusively has jurisdiction to make laws in relation to "the regulation of trade and commerce." From its commencement the Quebec Conference assigned to the Dominion Parliament the matter of trade and commerce.

From the very general nature of the language used in this Subhead 2 of Section 91, it is reasonable to suppose that the Fathers of Confederation had in view that this would be most useful in the regulating of the economic life of Canada from time to time. In the case of *Citizens Insurance Company v. Parsons* (1881) 7 Appeal Cases, 96, the Privy Council said as follows in regard to Subhead 2 (see pages 112-13):

The words "regulation of trade and commerce," in their unlimited sense are sufficiently wide, if uncontrolled by the context and other parts of the Act, to include every regulation of trade ranging from political arrangements in regard to trade with foreign governments, requiring the sanction of parliament, down to minute

rules for regulating particular trades. But a consideration of the Act shews that the words were not used in this unlimited sense. In the first place the collocation of No. 2 with classes of subjects of national and general concern affords an indication that regulations relating to general trade and commerce were in the mind of the legislature, when conferring this power on the Dominion Parliament. If the words had been intended to have the full scope of which in their literal meaning they are susceptible, the specific mention of several of the other classes of subjects enumerated in sect. 91 would have been unnecessary; as, 15, banking; 17, weights and measures; 18, bills of exchange and promissory notes; 19, interest; and even 21, bankruptcy and insolvency.

"Regulation of trade and commerce" may have been used in some such sense as the words "regulations of trade" in the Act of Union between England and Scotland (6 Anne, c. 11), and as these words have been used in Acts of State relating to trade and commerce. Article V. of the Act of Union enacted that all the subjects of the United Kingdom should have "full freedom and intercourse of trade and navigation" to and from all places in the United Kingdom and the Colonies; and Article VI. enacted that all parts of the United Kingdom from and after the Union should be under the same "prohibitions, restrictions, and regulations of trade." Parliament has at various times since the Union passed laws affecting and regulating specific trades in one part of the United Kingdom only, without its being supposed that it thereby infringed the Articles of Union. Thus the Acts for regulating the sale of intoxicating liquors notoriously vary in the two kingdoms. So with regard to Acts relating to bankruptcy, and various other matters.

Construing therefore the words "regulation of trade and commerce" by the various aids to their interpretation above suggested, they would include political arrangements in regard to trade requiring the sanction of parliament, regulation of trade in matters of inter-provincial concern, and it may be that they would include general regulation of trade affecting the whole Dominion. Their Lordships abstain on the present occasion from any attempt to define the limits of the authority of the Dominion Parliament in this direction. It is enough for the decision of the present case to say that, in their view, its authority to legislate for the regulation of trade and commerce does not comprehend the power to regulate by legislation the contracts of a particular business or trade, such as the business of fire insurance in a single province, and therefore that its legislative authority does not in the present case conflict or compete with the power over property and civil rights assigned to the legislature of Ontario by No. 13 of sec. 92.

It appears unreasonable to believe that the Fathers of Confederation in the consideration of this head of legislation ever had in contemplation the statute of Anne providing for the Union between England and Scotland. It is more reasonable to infer that the Fathers of Confederation had studied the corresponding clause in the constitution of the United States which gives Congress power "to regulate commerce with foreign nations and among the several States and with the Indian tribes," and used the language in Subhead 2 "the regulation of trade and commerce" in order that the power of legislation to be conferred would be all-embracing and of the widest possible scope and would not be subject to the limitations imposed by the corresponding clause in the constitution of the United States.

Subsequent to the Parsons case, the Privy Council further restricted the interpretation of this Subhead 2 by suggesting that it could only be invoked in aid of a general power which the Parliament of Canada possessed independently of it. That is, for example, if you start with a company duly incorporated

by the Dominion, then "the power to regulate trade and commerce at all events enables the Parliament of Canada to prescribe to what extent the powers of companies the objects of which extend to the entire Dominion should be exercisable and what limitations should be placed on such powers."⁴ In the Board of Commerce case (1922) 1 Appeal Cases, 191 at p. 198, and in *Toronto Electric Commissioners v. Snider*, 1925 Appeal Cases, 396 at p. 409, the Privy Council affirmed the interpretation of this Subhead 2 laid down in the *John Deere Plow* case.

It is true that in the subsequent case of *Proprietary Articles Trade Association v. Attorney-General for Canada*, 1931 Appeal Cases, 310, the Privy Council speaking through Lord Atkin said as follows at p. 326:

The view that their Lordships have expressed makes it unnecessary to discuss the further ground upon which the legislation has been supported by reference to the power to legislate under s. 91, head 2, for "The regulation of trade and commerce." Their Lordships merely propose to disassociate themselves from the construction suggested in argument of a passage in the judgment in the Board of Commerce Case (1922), 1 A.C. 191, 198, under which it was contended that the power to regulate trade and commerce could be invoked only in furtherance of a general power which Parliament possessed independently of it. No such restriction is properly to be inferred from that judgment. The words of the statute must receive their proper construction where they stand as giving an independent authority to Parliament over the particular subject-matter. But following the second principle noticed in the beginning of this judgment their Lordships in the present case forbear from defining the extent of that authority. They desire, however, to guard themselves from being supposed to lay down that the present legislation could not be supported on that ground.

What Lord Atkin said as quoted above is, of course, obiter and negatives the view that this Subhead 2 is not an independent topic. That is, he tells us what Subhead 2 is not, but what was said by Lord Atkin does not suggest what interpretation should be placed on said words "the regulation of trade and commerce."

This Subhead 2 was finally considered fully by the Supreme Court of Canada in the reference in re the Natural Products Marketing Act, 1934, and its Amending Act, 1935, 1936 S.C.R. 398 at pp. 404-14. The Supreme Court of Canada, guided by the decided cases, unanimously held that the Natural Products Marketing Act legislation of the Parliament of Canada could not be supported under this Subhead 2. The Privy Council dismissed the appeal from the judgment of the Supreme Court of Canada and upheld the judgment of the Supreme Court of Canada. See *Attorney-General for British Columbia v. Attorney-General for Canada*, 1937 Appeal Cases, 377. Neither the Supreme Court of Canada nor the Judicial Committee in the Natural Products Marketing Act case judgments appear to have discussed what was said obiter by Lord Atkin in the *Proprietary Articles Trade Association* case relative to the subhead, the regulation of trade and commerce.

The Dominion Trade and Industry Commission Act, 1935, being chapter 59 of the 25-26 George V Statutes of Canada (1935) sets out in its preamble

⁴*John Deere Plow Company Limited v. Wharton*, 1915 Appeal Cases, 330 at p. 340.

that it was passed to correct some of the evils disclosed by the Royal Commission on Price Spreads and set out in the Price Spreads Report. Section 14 of the said Dominion Trade and Industry Commission Act, 1935, provided for agreements to regulate price and production in certain industries in order to check wasteful or demoralizing competition. The Supreme Court of Canada held that Section 14 was *ultra vires*. Under the decided cases it could not be sustained under Subhead 2 of Section 91 as a general regulation of trade and commerce. (See In the matter of a reference as to whether the Parliament of Canada had legislative jurisdiction to enact the Dominion Trade and Industry Commission Act, 1935, being 25-26 Geo. V, c. 59 (1936) S.C.R. 379.) This judgment of the Supreme Court of Canada was appealed to the Judicial Committee, but there was no appeal against the finding that Section 14 was *ultra vires*. (See 1937 Appeal Cases, 405 at p. 409.)

Governmental regulation of business.—This topic has already been dealt with in the discussion of the peace, order, and good government clause of Section 91. In the Natural Products Marketing Act case, both the Supreme Court of Canada and the Judicial Committee, in accordance with the decided cases, negatived the view that the legislation in question came within the regulation of trade and commerce. (See 1936 S.C.R. 398 at p. 404; 1937 Appeal Cases, 377 at p. 387.) It thus appears clear that the words “the regulation of trade and commerce” do not enable the Parliament of Canada to enact legislation to regulate particular businesses.

In many of the cases cited above in the discussion as to the introductory clause of Section 91, it was attempted to justify the legislation by the Parliament of Canada also under this Subhead 2 of Section 91.

Summary.—We can sum up briefly the situation in regard to the matter of legislation in relation to “the regulation of trade and commerce” by stating that all attempts to uphold jurisdiction by the Parliament of Canada under Subhead 2 of Section 91 (in relation to: the liquor traffic; through traffic on provincial railways; insurance; evils of profiteering in dealing in the necessities of life and regulating prices of necessities of life; industrial disputes; unemployment insurance; weekly rest, minimum wages, hours of labour; social services generally; grain trade; governmental regulation of business; treaty-performing power in cases which do not come within Section 132) have been just as unsuccessful as the attempts in connection with the introductory clause of Section 91.

Under the decided cases the words “the regulation of trade and commerce” are almost bereft of any meaning as a separate and distinct power.

TAXATION

The existing division of taxing powers between the Parliament of Canada and the legislatures of the provinces as established by the British North America Act, 1867, and interpreted by a long line of legal decisions, is familiar to all.

To express it briefly, the Dominion of Canada has unlimited powers of taxation—"the raising of money by any mode or system of taxation."* The provinces of Canada are limited to "direct taxation within the province in order to the raising of a revenue for provincial purposes,"† and "shop, saloon, tavern, auctioneer and other licenses in order to the raising of a revenue for provincial, local or municipal purposes."‡

That is, the taxing powers of the Parliament of Canada for Dominion purposes are unlimited, while those of the provincial legislatures are limited to: (a) direct taxation (b) within the province (c) in order to the raising of a revenue for provincial purposes, together with (d) taxation by way of licenses.

Municipal taxing powers, being derived from the provinces, are limited to those powers which the provincial legislatures themselves possess and have chosen to bestow upon the municipalities.

Dominion-provincial financial relationships created by Confederation—The financial negotiations at the Quebec Conference which laid the basis for the financial arrangements of the British North America Act, 1867, were conducted under the supervision of the Honourable Alexander T. Galt, Minister of Finance for the United Provinces of Upper and Lower Canada. In a speech delivered by Mr. Galt at Sherbrooke on November 23, 1864, we find a full and clear statement of the ideas which lay behind the financial settlement set out in the Quebec Resolution, and particularly as to the basis on which the subsidies of the provinces were originally determined. We will shortly quote a portion of this address which deals with the financial position of the provinces, in order to stress the point that the subsidies payable to the provinces had a distinct relation to the limited powers which the provinces were expected to exercise, and the restricted sources of revenue which were to be retained by them under the proposed terms of the federal constitution.

Before Confederation the chief revenues of the provinces had been customs and excise—indirect taxation. These taxes were to pass to the Dominion at Confederation. The local revenues remaining to the provinces were comparatively small. As they were too small to support the functions of government which were left with the provinces, the Dominion had to help the provinces. This help was to take three forms:

1. The Dominion was to pay interest on the so-called debt allowance. At Confederation each of the provinces had its own debt, incurred mainly for buildings, canals, railways, public buildings, etc. The revenues which had paid the interest on this debt were largely customs duties and excise taxes. The Dominion, of course, took over the customs and excise taxes. It took over the assets—the canals, railways, and buildings—and it assumed the debt created by capital expenditures on these assets. The per capita debt so assumed in the case of Upper and Lower Canada was \$25.00 per head. A debt allowance was made to the other provinces of \$25.00 per head. Their debts were less

*Section 91 (3).

†Section 92 (2).

‡Section 92 (9).

than this allowance. The Dominion agreed to pay interest at 5 per cent per annum on the deficiency so calculated.

2. Dominion grants for the support of provincial governments and legislatures.

3. Annual Dominion grants in aid on a per capita basis of the population of each province.

As to the form of this help, Sir Alexander Galt had this to say:

Now it was necessary to provide by some means for maintaining certain local expenditures of the various provinces. There were the public works to be kept in order, the educational institutions to be maintained, the systems of civil law to be administered, and there were a variety of other claims to be attended to, which would naturally suggest themselves at once to anyone who reflected on the subject. For this purpose, it was found necessary to assign to them certain local revenues, of which the territorial revenues formed the bulk. The local revenues amounted in 1863 in the Maritime Provinces, to the following sums:

Nova Scotia	\$107,000.00
New Brunswick	89,000.00
Prince Edward Island.....	32,000.00
Newfoundland (which did not enter Confederation)...	5,000.00
	\$233,000.00

These were the revenues that would not be transferred to the General Government, but would be disposed of by the Local Governments for local purposes . . . Now one objection to Confederation was made on the ground of expense, and in order to meet this, every effort had been made to reduce the cost of the local governments, so that the local machinery should be as little costly as possible, for it would not do to affront the intelligence of the people, and tell them we had devised an expensive kind of machinery to do a very insignificant amount of work. The gentlemen from the Lower Provinces had been asked what reductions they could make in the Government of the several colonies, and the figures he was about to give would be most satisfactory as showing the disposition of those gentlemen, who had reduced their requirements to the lowest sum. In her estimate of outlay for 1864 for objects of local character the Province of Nova Scotia had provided for an expenditure of no less than \$667,000, but had undertaken to perform the same service in future under a confederation for \$371,000, or a reduction of 40 per cent . . . The outlay of all the provinces being, however, greater than their local revenues it became necessary to make provision out of the General Fund for the purpose of enabling their Local Legislatures to carry on the machinery of Government. It was proposed to take away from them every source of revenue they possessed except minor local revenues, and then to give them from the public chest a sufficient subsidy to enable the machinery to work. The estimate was formed on the wants of Nova Scotia. It was first proposed to form it on the wants of New Brunswick, but these were found greater than those of the former, which had consequently been taken as the basis. The estimate was that 80 cents a head on the population of Nova Scotia would be sufficient to enable her to work her local system. She would want \$264,000. In the case of Upper Canada, 80 cents a head was considerably more than she wanted at the present day, and in the case of Lower Canada was at least adequate with the local present funds that would become available to her. But it was felt that in giving a subsidy from the public chest it was impossible to draw a distinction between one part of the country and another. But it was not intended to hold out any inducement to future extravagance to local Governments, but it was hoped that by the operating of natural causes such a check would be put upon expenditures as would bring them

down to the lowest point, or at least prevent them from becoming lavish. Therefore, the subsidy proposed to be given to local legislatures was fixed, not at an increasing rate according to population but at the rate which existed at the census of 1861. By this means, as the population increased, the subsidy would not increase with it. Upper and Lower Canada would get thus within a fraction of two million dollars, and when their population increased to five millions instead of two-and-a-half, would get no more. If they increased their expenses in proportion to the growth of population they would be obliged to resort to direct taxation; and he thought that they might trust the people themselves to keep a sharp watch over the local Governments lest they should resort to direct taxation. He thought no surer check could be put upon them than thus fixing the grants they were respectively to receive.

As we are all aware, the provinces in Canada, in spite of the forebodings of Sir Alexander T. Galt, have had to resort to direct taxation. The remarks by Sir Alexander T. Galt in regard to direct taxation by the provinces illustrate acutely the problems now confronting the provinces as compared with 1867. But when the provinces found it necessary to utilize direct taxation they found that through the interpretations of the courts this important field of revenue has been seriously curtailed. This feature will be considered next.

The principle of direct taxation has been so applied by the decisions of the Judicial Committee on the construction of the British North America Act, 1867, as to constitute a serious menace to provincial revenues. That is, after certain legislation has been enacted by a provincial legislature providing for taxation which seemed to be direct taxation, the Judicial Committee has held it to be indirect taxation and thus beyond the competency of the legislature of a province of Canada.

There appears to be now no room for doubt as to the test to be applied in answering the question as to whether a particular tax imposed is direct or indirect. By successive decisions of the Judicial Committee the principle as laid down by John Stuart Mill and other political economists has been judicially adopted as the test for determining whether a particular tax is direct or indirect. The principle is that a direct tax is one that is demanded from the very person who it is intended or desired should pay it. An indirect tax is that which is demanded from one person in the expectation and with the intention that he shall indemnify himself at the expense of another. Of such taxes (indirect taxes) excise and customs are given as examples.

Four fairly recent decisions will now be reviewed briefly in order to illustrate the difficulties experienced by the legislatures of the provinces in this matter of direct and indirect taxation.

Grain Futures Taxation Case.—In the Grain Futures Case, Attorney-General for Manitoba v. Attorney-General for Canada, 1925 Appeal Cases, 561, the Judicial Committee held invalid the Grain Futures Taxation Act, being chapter 17 of the Statutes of Manitoba, 1923. This Act was legislation to provide for the collection of a tax from persons selling grain for future delivery. It had a provision therein declaring that the tax was a direct tax.

Nevertheless the Supreme Court of Canada, guided by the decided cases held the legislation ultra vires, and on appeal to the Judicial Committee the

judgment of the Supreme Court of Canada was affirmed. The Judicial Committee held that in many transactions to which it related, the person paying the tax would indemnify himself at the expense of others. It was hence indirect taxation and it was not possible to assume that the legislature intended to pass it in a truncated form.

Fuel-Oil Case.—In the Fuel-Oil Case, Attorney-General for British Columbia v. Canadian Pacific Railway Company (1927 Appeal Cases, 934), legislation enacted by the Legislature of British Columbia was held invalid. This particular legislation required that every person who should purchase within the province fuel-oil for the first time after its manufacture in or importation into the province should pay for provincial purposes a tax equal to one-half cent per gallon on the oil so purchased.

The Judicial Committee in this Fuel-Oil Case, speaking through Viscount Haldane, said as follows (see pages 937-38 of 1927 Appeal Cases):

The first and cardinal question is whether the tax is direct or indirect within the meaning of the expressions used in ss. 91 and 92 of the British North America Act. If the tax is indirect, the respondents escape wholly. Their Lordships entertain no doubt that within the meaning placed on the language employed by a series of decisions in the Canadian Courts and in the Privy Council, the tax is indirect. If so, the statute in question was *ultra vires*. . . .

It was laid down by the Board that while a direct tax is one that is demanded from the very person who it is intended or desired should pay it, an indirect tax is that which is demanded from one person in the expectation and with the intention that he should indemnify himself at the expense of another, as may be the case with excise and customs. . . . The meaning of the distinction had been settled by the exposition given of it by the political economists, whose broadly phrased definition had been adopted in earlier decisions, such as Attorney-General for Quebec v. Reed (10 App. Cas. 141) per Lord Selborne; Bank of Toronto v. Lambe (12 App. Cas. 575) per Lord Hobhouse; and Brewers' and Maltsters' Association of Ontario v. Attorney-General for Ontario (1897, App. Cas. 231) per Lord Herschell. It was true that the question of the meaning of the words used in ss. 91 and 92 was one, not of political economy but of law. Still, as Lord Hobhouse pointed out, the legislation must have contemplated some tangible dividing line referable to and ascertainable by the general tendencies of the tax and the common understanding of men as to these tendencies. The definition given by John Stuart Mill was accordingly taken as a fair basis for testing the character of the tax in question, not as a legal definition, but as embodying with sufficient accuracy an understanding of the most obvious indicia of direct and indirect taxation, such as might be presumed to have been in the minds of those who passed the Act of 1867. Validity in accordance with such tendencies, and not according to results in isolated or merely particular instances, must be the test. The question of validity could not be made to impose on the Courts the duty of separating out individual instances in which the tax might operate directly from those to which the general purview of the taxation applies. An exhaustive partition would be an impracticable task.

Taking the principle so laid down as the guide to the solution of the present question, the result does not seem doubtful. There are two fuel-oil companies which are associated in business in a close fashion. The Union Oil Company of California sells its oil to the Union Company of Canada, which has large storage tanks at Vancouver, which the former company keeps replenished according to directions from the Canadian company. The respondents purchase oil in British Columbia

from the latter company. It is sought to tax them as first purchasers under s. 3, and as holders of the oil for consumption under s. 6, which has to be read with reference to s. 3. It may be true that, having regard to the practice of the respondents, the oil they purchase is used by themselves alone and is not at present resold. But the respondents might develop their business so as to include resale of the oil they have bought. The principle of construction as established is satisfied if this is practicable, and does not for its application depend on the special circumstances of individual cases. Fuel-oil is a marketable commodity, and those who purchase it, even for their own use, acquire the right to take it into the market. It therefore comes within the general principle which determines that the tax is an indirect one.

Mine Owners Tax Case.—In 1923 the Legislature of Alberta enacted the Mine Owners Tax Act, 1923 (being chapter 33 of the Statutes of Alberta, 1923), which purported to impose upon every mine owner as therein defined a percentage tax upon the gross revenue of his mine during each preceding month.

The tax was challenged by Caledonian Collieries, Limited, on the ground that the tax was an indirect tax and hence beyond the competency of a provincial legislature to impose. The courts in Alberta held the tax to be direct, but on appeal to the Supreme Court of Canada the tax was held to be indirect. (See *Caledonian Collieries, Limited v. His Majesty the King*, 1927 Supreme Court of Canada Reports at p. 257.)

On appeal to the Judicial Committee the judgment of the Supreme Court of Canada was affirmed. (See *The King v. Caledonian Collieries, Limited*, 1928 Appeal Cases, 358.) At pages 361-62 of said 1928 Appeal Cases the following is found in the judgment of the Judicial Committee, speaking through Lord Warrington of Clyffe:

Is the taxation in question "direct taxation within the Province" within the meaning of s. 92 of the British North America Act, 1867?

The question whether a tax is direct or indirect has on many occasions been the subject of decision by this Board, but it is unnecessary to refer to any of these decisions except that of *Bank of Toronto v. Lambe* (12 App. Cas. 575, 581, 582), in which Lord Hobhouse, in delivering the judgment of the Board, made some useful observations as to the mode in which the question should be approached.

The passage has often been cited, but it is worth while citing it again: "First, is the tax a direct tax? For the argument of this question the opinions of a great many writers on political economy have been cited, and it is quite proper, or, rather necessary, to have careful regard to such opinions, as has been said in previous cases before this Board. But it must not be forgotten that the question is a legal one, viz., what the words mean, as used in this statute; whereas the economists are always seeking to trace the effect of taxation throughout the community, and are apt to use the words 'direct' and 'indirect' according as they find that the burden of a tax abides more or less with the person who first pays it. This distinction is illustrated very clearly by the quotations from a very able and clear thinker, the late Mr. Fawcett, who, after giving his tests of direct and indirect taxation, makes remarks to the effect that a tax may be made direct or indirect by the position of the taxpayers or by private bargains about its payment. Doubtless, such remarks have their value in an economical discussion. Probably it is true of every indirect tax that some persons are both the first and the final payers of it; and of every direct tax that it affects persons other than the first payers; and the excellence of an economist's definition will be measured by the accuracy with which it contemplates and embraces

every incident of the thing defined. But that very excellence impairs its value for the purposes of the lawyer. The Legislature cannot possibly have meant to give a power of taxation valid or invalid according to its actual results in particular cases. It must have contemplated some tangible dividing line referable to and ascertainable by the general tendencies of the tax and the common understanding of men as to those tendencies."

What then is the general tendency of the tax now in question?

First it is necessary to ascertain the real nature of the tax. It is not disputed that, though the tax is called a tax on "gross revenue," such gross revenue is in reality the aggregate of sums received from sales of coal, and is indistinguishable from a tax upon every sum received from the sale of coal.

The respondents are producers of coal, a commodity the subject of commercial transactions. Their Lordships can have no doubt that the general tendency of a tax upon the sums received from the sale of the commodity which they produce and in which they deal is that they would seek to recover it in the price charged to a purchaser. Under particular circumstances the recovery of the tax may, it is true, be economically undesirable or practically impossible, but the general tendency of the tax remains.

It is said on behalf of the appellant that at the time a sale is made the tax has not become payable, and therefore cannot be passed on. Their Lordships cannot accept this contention; the tax will have to be paid, and there would be no more difficulty in adding to the selling price the amount of the tax in anticipation than there would be if it had been actually paid.

Attorney-General for British Columbia v. McDonald Murphy Lumber Company, Limited.—Section 58 of the Forest Act (chapter 93 of the Revised Statutes of British Columbia, 1924) imposed a tax upon all timber cut within the province except that upon which a royalty was payable, but provided that in the case of timber used or manufactured in the province there should be a rebate of nearly the whole tax. The Forest Act prohibited under penalty the export of any timber without a certificate that the tax due in respect of it had been paid.

The legislation was challenged and was held invalid by the Judicial Committee. (See 1930 Appeal Cases, 357.) The headnote at said page 357 is in part as follows:

Held, that the tax was invalid because it was an export tax, and so fell within the category of duties of customs and excise, which the Dominion Legislature had exclusive power to impose by s. 122 of the British North America Act, 1867; also because it was indirect taxation, and therefore not within the legislative power of the Province under s. 92, head 2, of that Act.

A tax levied on a commercial commodity upon the occasion of its exportation in pursuance of trading transactions cannot be described as a tax whose incidence, by its nature, is such that it is finally borne by the first payer and is not susceptible of being passed on.

The Judicial Committee through Lord Macmillan stated as follows relative to the matter of direct and indirect taxation (see pages 364-65 of 1930 Appeal Cases):

... Without reviewing afresh the niceties of discrimination between direct and indirect taxation it is enough to point out that an export tax is normally collected on merchantable goods in course of transit in pursuance of commercial transactions.

Whether the tax is ultimately borne by the exporting seller at home or by the importing buyer abroad depends on the terms of the contract between them. It may be borne by the one or by the other. It was said in the present case that the conditions of the competitive market in the United States compelled the exporter of timber from British Columbia to that country to bear the whole burden of the tax himself. That, however, is a matter of the exigencies of a particular market, and is really irrelevant in determining the inherent character of the tax. While it is no doubt true that a tax levied on personal property, no less than a tax levied on real property, may be a direct tax where the taxpayer's personal property is selected as the criterion of his ability to pay, a tax which, like the tax here in question, is levied on a commercial commodity on the occasion of its exportation in pursuance of trading transactions, cannot be described as a tax whose incidence is, by its nature, such that normally it is finally borne by the first payer, and is not susceptible of being passed on. On the contrary, the existence of an export tax is invariably an element in the fixing of prices, and the question whether it is to be borne by seller or purchaser in whole or in part is determined by the bargain made. The present tax thus exhibits the leading characteristic of an indirect tax as defined by authoritative decisions.

By these cases the Privy Council has placed an interpretation on what is meant by direct taxation that has resulted in the provinces being deprived of certain valuable sources of revenue, because the particular taxation was held not to be "direct taxation" as that term appears in Subhead 2 of Section 92 of the British North America Act, 1867.

As might be expected, the succession duties legislation of the provinces has been the source of much litigation in this matter of "direct taxation within the province in order to the raising of a revenue for provincial purposes." Whenever the courts have held that, under the decided cases as to direct taxation, impugned succession duties legislation was not direct, new legislation has been enacted to attempt to overcome the imperfections pointed out. As succession duties are in force in each of the nine provinces of Canada and are a well-established and well-recognized method of raising revenue, there seems to be no sound reason why in this most important field of taxation the provinces should be hampered as they are by the interpretation of "direct taxation" which has been laid down by the Judicial Committee.

One can sum up the anomalous situation relative to taxation by stating that the provinces, which alone have the power to pass laws in relation to such matters as unemployment insurance, old-age pensions, and the great social services, hereinbefore referred to, have not at present the powers of taxation necessary to meet the outlay for them.

The interpretation which has been placed on the meaning of direct taxation has had serious effects in other fields of provincial activity than in regard to the raising of revenue for provincial purposes. For example, in 1929 the Legislature of British Columbia enacted the Dairy Products Sales Adjustment Act, being chapter 20 of the Statutes of British Columbia, 1929, and intituled "An Act for the Relief of Dairy-Farmers." The purpose of the Dairy Products Sales Adjustment Act can be ascertained from its preamble, as follows:

Whereas the demand for milk and cream in fluid form is not always equal to supply, and consequently some dairy-farmers, in order to avoid a congestion of the

fluid-milk market, are obliged to market a portion of their milk in the form of manufactured products at world market prices, which prices are much lower than the price obtained for milk in fluid form;

And whereas the whole body of dairy-farmers benefit from the consequent relief of the fluid-milk market;

And whereas it is just and equitable that the result of such sale of milk products be equally distributed over the whole body of dairy-farmers in the district.

As might be expected, the question of the validity of the legislation for the relief of dairy-farmers soon came before the courts. In the case of *Lower Mainland Dairy Products Sales Adjustment Committee v. Crystal Dairy, Limited* (1933 Appeal Cases, 168) the Judicial Committee upheld the findings of the British Columbia courts that the Dairy Products Sales Adjustment Act was ultra vires. The headnote of the Privy Council judgment found at said page 168 of 1933 Appeal Cases is as follows:

Because it was more profitable to dairy farmers in British Columbia to sell their milk in a fluid form than to sell products manufactured from it, the market for fluid milk became glutted. As a remedy the Provincial Legislature passed the Dairy Products Sales Adjustment Act, 1929 (amended in 1930 and 1931), authorizing the appointment of an Adjustment Committee in any district in which the dairy farmers petitioned for one. Where a Committee was appointed the farmers had to make returns to it, and a farmer selling fluid milk had to pay to the Committee a levy assessed according to the quantity he had sold; the total of these levies, which together made up the difference in value of the milk disposed of in the two forms, was to be apportioned by the Committee among the farmers who had sold milk products. The expenses of the Committee were to be met by a further levy on the farmers. Both levies were recoverable as debts.

Held, that both levies were taxes, and, as they would tend to affect the price of commodities, they were indirect taxes, and the Act was therefore ultra vires the Province having regard to s. 91, head 3, and s. 92, head 2, of the British North America Act, 1867; it was unnecessary to determine whether the Act was invalid also under s. 91, head 2, as being for the regulation of trade and commerce. The Act was not in relation to agriculture so as to be within s. 95.

Workmen's Compensation Board v. Canadian Pacific Ry. Co. (1920) A.C. 184 distinguished.

Judgment of the Court of Appeal of British Columbia affirmed.

It will thus be seen that on account of the interpretation which has been placed by the Judicial Committee on the meaning of direct taxation, a province in Canada is faced with serious handicaps if it attempts to regulate a business within its borders by a levy for equalizing purposes, etc.

Above, under these four divisions (provinces as independent and autonomous; matters of national importance; the regulation of trade and commerce; taxation), we have discussed certain aspects of the interpretation of the constitution of Canada in so far as same relates to the matters to be considered by this Commission.

AMENDMENT OF THE CONSTITUTION

There will now be considered the matter of the amendment of the constitution.

It may be said from the above that the original conception and the present position of the constitution of Canada are poles apart. It has been interpreted in a way which it can safely be said would have caused consternation in the minds of those who framed it.

It will be apparent from the decided cases in such matters of the gravest national importance as unemployment insurance, weekly rest, minimum wages, hours of labour, and other great social services, that we in Canada are practically at an impasse. The Dominion, according to the decisions referred to above, has not the power to pass legislation in relation to such matters; the provinces alone have the power to pass such legislation, but they cannot in practice deal with such matters satisfactorily, as from their nature only national action in regard thereto can really be effective. In addition, to repeat what has already been emphasized, the provinces have not at present the powers of taxation necessary to meet the outlay for said matters and matters of similar import.

The closing words of the first Resolution of the Quebec and London Conferences are as follows: "Provided such Union can be effected on principles just to the several provinces." If anyone can say that the present situation is "just to the several provinces," it may well be asked what would be the conditions which would make the situation "unjust to the several provinces."

It is worthy of note that in the Order in Council appointing this Commission, the matters to be investigated and considered postulate the existence of certain facts which appear to admit the grievances of the provinces which are set out above.

Hence one is led to the irresistible conclusion that our constitution as it stands at present has ceased to be an effective instrument of government. It should be amended so that the defects which have been pointed out can be removed, and so that it will meet the needs of to-day and will cease to be an obstacle to social progress and national development.

It will, of course, not be overlooked that our constitution can be changed by progressive judicial interpretation. This is a slow process and it is unreasonable now to expect the courts to overrule the long series of decided cases and remould and refashion the Canadian constitution by "judicial legislation" so as to make it conform satisfactorily to the requirements of present-day social and economic conditions which are profoundly different from those which existed seventy years ago. Hence any amendment of our constitution must be made by legislative enactment and it is such an amendment that is referred to hereafter in this paper.

The Imperial Conference of 1926 issued the famous report known as the Balfour Report. The main declaration in this report was:

The Committee are of opinion that nothing would be gained by attempting to lay down a Constitution for the British Empire. Its widely scattered parts have very different characteristics, very different histories, and are at very different stages of evolution; while, considered as a whole, it defies classification and bears no real resemblance to any other political organization which now exists or has ever yet been tried.

There is, however, one most important element in it which, from a strictly constitutional point of view, has now, as regards all vital matters, reached its full development—we refer to the group of self-governing communities composed of Great Britain and the Dominions. Their position and mutual relation may be readily defined. They are autonomous Communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations.*

The Balfour Report, however, does not refer to one respect in which Canada's constitutional position is different from that of the other self-governing communities. The other self-governing communities referred to in the said report have power to alter their own constitutions. The Dominion of Canada alone of the self-governing communities has no such power. Its constitution makes no provision for its amendment. In the great matter of amending Sections 91 and 92 of the constitution, no amendment has ever been enacted.

Hence it appears that it is not accurate to say that Canada is equal in status to those communities which have power to alter their own constitutions.

The present situation emphasizes that there must be a reallocation of legislative power between the Dominion and the provinces. The recent decisions have linked the demand for reallocation to social and economic questions of the gravest import.

The decided cases appear to establish that Sections 102 and 132 of the constitution should receive careful consideration along with Sections 91 and 92.

The Government of Manitoba takes the view that the question as to what procedure should be utilized to effect amendments of the constitution is a topic which at present does not call for any suggestions.

CONCLUDING OBSERVATIONS

The Government of Manitoba, in closing this section of its submissions, desires to make some general observations as befitting the importance of the occasion.

A consideration of the events, etc., which preceded 1867 tells us that difficult and strenuous times confronted the Fathers of Confederation. The sectional and political differences and the clash of controversy must have made the problems of Confederation seem almost impossible of solution. We cannot as yet and perhaps never will be able to distribute among the Fathers of

*Page 12 of Summary of Proceedings of Imperial Conference, 1926, published by the King's Printer, Ottawa.

Confederation the credit which is due each of them for the part he played in consummating the union of these provinces. But sectional and political differences were temporarily forgotten, the clash of controversy was suspended, the Fathers of Confederation each brought to his country's altar the highest powers and talents which within him lay. The British North America Act, 1867, was the result.

That Act served well the times for which it was enacted. But seventy years have passed since the Union was effected. That is a long period in the life of a young country like Canada. A new orientation of the rights of the citizens in relation to the government of the state has arisen. The brotherhood of man has a meaning now quite different from the meaning of 1867. The problems we have touched on above (and there are doubtless others) have widened the scope and altered the tempo and functions of government.

Shall the march of progress continue or shall we in Canada remain in the mould of an age that is past? The constitution as it stands is not able to meet the new conditions. It demands amendments.

Again, as prior to 1867, there are sectional and political differences which project themselves into the life of the people of these nine independent and autonomous communities which occupy the northern half of the North American continent. Again, as prior to 1867, the clash of controversy is heard in the land. The lessons of history teach us that a democratic people will not indefinitely suffer disabilities. In its last analysis the constitution of our country comes from the people. No great question is ever settled until it is settled right.

The Government of Manitoba believes that the problems now before us are no greater than those of 1867. It believes that again sectional and political differences can be temporarily forgotten and the clash of controversy can be suspended so that the necessary changes can be made to enable our constitution to meet the problems which now confront us.

The Government of Manitoba hopes that these submissions which are being made to this Commission, and through this Commission to the tribunal of public opinion, will serve some good purpose.

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MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part III

*The Effects of Federal Monetary Policy
on Western Canadian Economy*

WINNIPEG, MANITOBA
Printed by Jas. L. Cowie, King's Printer for Manitoba
November, A.D. 1937

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PART III

THE EFFECTS OF FEDERAL MONETARY POLICY ON WESTERN CANADIAN ECONOMY*

SUMMARY OF ANALYSIS AND CONCLUSIONS

The purpose of this section is to examine the extent of disability placed upon Manitoba and the prairie provinces as a result of the monetary policy that prevailed in Canada from 1931 to 1936 and to compare it with a monetary policy that would have maintained the ability of the West to compete effectively on a price basis with its chief competitors in the world markets—Australia and the Argentine. It will be shown that the annual income to the grain growers of Manitoba upon their grain exports was 6 million dollars less than if the Canadian dollar had been kept in line with the Australian pound. In fact, the cost to all Manitoba grain growers about equalled the total taxes collected annually by the provincial government. Using the same basis, the cost to wheat growers alone in the three prairie provinces averaged about forty-seven million dollars annually, which exceeded the total amount of taxes collected by the municipalities of the three provinces.

The prairie provinces export to foreign countries about *45 per cent of the value of their total net production*, a proportion as high as, if not higher than, that of most important producing areas in the world. For Manitoba, the proportion of total production exported is about one-half of the average of the prairie provinces, that is about 22 per cent. But because the business of the elevator companies and grain concerns of Winnipeg depends not only upon the grain trade of Manitoba but also upon that of all of Alberta and Saskatchewan—Manitoba, including Winnipeg, is really more heavily dependent upon the export trade than this figure of 22 per cent would indicate. The rest of Canada (exclusive of the prairie provinces) exports abroad only about 10 per cent of its total production. Thus, we see that Manitoba, Saskatchewan and Alberta are very much more heavily dependent upon export markets than is the rest of Canada.

It is a simple truth that, as far as price is concerned, the seller of goods to buyers within his own country is concerned only with the price that he receives for his product. To the seller of goods abroad, however, there are two factors that determine the price the seller receives for his production. These two factors are: first, the price of goods *in the foreign import country*, and, second, the rate of exchange. The rate of exchange is equally important in determining how much that price yields him in his own country.

* This submission is the work of A. R. Upgren. Assistance was given by H. C. Grant and the manuscript was read by J. Viner and A. H. Hansen, who gave many helpful suggestions.

We may illustrate this by a reference to Canada's production of manufactured goods, which generally do not enter largely into export trade, and whose producers are concerned only with the price *within* Canada. In contrast, the grain grower of Manitoba, who must sell abroad about *two-thirds of all the grain he produces*, is heavily dependent upon the price of grain in foreign countries. In fact, it is well recognized that this foreign price, or world price, sets the price even for the smaller portion of his crop which he sells at home, but which we have not taken into consideration in our estimate of the disability to the prairie provinces. But the grain grower does not actually receive payment for his foreign sales in foreign currency; this foreign money must be converted into Canadian dollars. Thus we see that the rate at which the world price becomes converted into Canadian dollars has just as much to do with the price the Canadian farmer receives as the price of grain itself, in the Liverpool market, for example.

During the depression, England purchased agricultural foods and raw materials in even larger quantities than before the depression. But to realize the situation in which the prairie province grain growers found themselves we must recall that in 1932 England got her supplies of food and drink from abroad at an average price in her own money, sterling, that was only 45 per cent of the price before the depression. Perhaps England's greatest force for recovery was this low food cost. It allowed her people to spend a much larger amount for things produced at home, and it was this in turn that assisted greatly in bringing about her sharp economic recovery. But this great gain for England represented a loss to Canada. Although the grain and meat producers of Australia, New Zealand, and Argentina also suffered income losses of the same nature, these losses in income in terms of Australian, New Zealand, and Argentine money were kept to a very considerably lower level by the currency policy that was adopted in each of these countries.

In these three countries, to prevent so drastic a decline in income to the producers of export commodities, the rate of exchange on England was permitted to rise (in contrast to an actual fall in 1932 for Canada). By this we mean that the number of Australian pounds that could be got for pounds sterling was increased by the action of the Australian government. An illustration of the actual rate for Australia will help to clarify what is meant by this change in the rate of exchange. In the past the Australian pound had a fixed parity in relation to the pound sterling; this parity may be expressed as one to one, or more conveniently as one hundred to one hundred (100 to 100). When prices of wheat and wool fell so sharply in 1931, the Australian banking system allowed this rate of exchange to change at the request and with full indemnity of the government. The rate was changed to a rate, as the Australian puts it, of 100 to 125; i.e., 100 pounds sterling would yield in the foreign exchange market 125 Australian pounds. In contrast to the policy in Australia, which resulted in a 25 per cent *increase* in returns in Australian money to Australian exporters on foreign sales, the Canadian policy resulted in a *decrease* of almost 20 per cent in the returns in Canadian money to Canadian exporters in 1932.

In New Zealand, as in Australia, the exchange policy resulted in an increase in returns of about 25 per cent; in Argentina the increase was almost 20 per cent.

Let us trace the results of this policy for the wheat grower of Australia. The wheat grower of Australia, selling in the English market for a price that we assume without substantial departure from reality to remain unaffected by change in Australian currency policy, received in Australian pounds for every 100 pounds sterling worth of wheat sold in Liverpool, not just 100 pounds in value, but 125 Australian pounds. If the price of wheat in Liverpool was unchanged, as we have assumed it to be (at least as far as any important quantitative change is concerned), the change in what we have called the second price-making factor, the rate of exchange, meant that the Australian wheat producer got a 25 per cent increase in his own money for the wheat which he sold abroad. As a result of the fall in the English currency value of the Australian currency in the period from 1931 to 1936, the producers of wheat in Australia secured, upon their average exports of about 125 million bushels, an annual increase in returns of about 18 million dollars, or about fifteen cents a bushel.

It was just this that Canada did not do. The prairie provinces, however, do compete in the world markets, very largely with Australia and Argentina. Argentina also allowed her rate of exchange to depreciate, and to depreciate even more than the Australian rate. Thus, the currency policy of Canada did not permit her producers and exporters for the world market, by far the most important of which is the wheat producer, to compete on an equal basis with the Argentine and Australian wheat exporter. The losses to the grain growers of the prairie provinces resulting from this monetary policy have amounted, as pointed out, to an annual average of 47 million dollars since 1931. This has been measured by calculating the difference between the amount actually received for wheat exports and the amount that would have been received if the relation of the Canadian dollar to the pound sterling had been kept in line with the rate Australia maintained, always assuming that such action would have had no effect on the sterling price of wheat.

The question naturally arises as to who would pay for the benefit Canadian exporters would have received from exchange alignment. The answer is that the classes in the community that must *buy* abroad pay higher prices for imported goods (or for domestically produced goods whose prices are fixed in the world markets) when the currency of a foreign country rises in value in relation to their own. Therefore, the buyers of imports that must be paid for in domestic currency of a reduced exchange value may be said to contribute in large part the very addition in funds which the sellers of exports receive.

Keeping the value of the Canadian dollar in terms of the pound sterling in line with the sterling rate for Australia—a policy of currency alignment—involves, of course, certain offsetting burdens to the advantages that the export industries derive. These are primarily the increased cost of imports, mentioned above, and the increased cost of debt service abroad. Specific

reference is made to these two accounts because they are the two most important items in Canada's balance of payments, and it is, of course, the total balance of payments rather than only the trade position that should be reckoned with. We suggest that the proportion of the West's surplus export receipts (the balance after deduction of payment of its imports) required for debt service must be a minor proportion of this surplus.

In order to illustrate this point let us assume—as is probably close to reality—that the proportion of total income absorbed in the payment of debt service abroad is uniform throughout Canada. We reach the conclusion that maintaining the value of the Canadian dollar greatly benefited Eastern Canada by providing at a lower cost (than would have been provided in the case of the policy of currency alignment) Eastern Canada's foreign debt service, which was much greater in relation to its export balance than that of Western Canada. In the case of Western Canada, on the other hand, the gain represented by the enhanced price for agricultural exports would be absorbed only to a minor degree by the increased payments required for foreign debt service. This statement is based upon the fact that a very substantial proportion of costs in agriculture is the fixed costs of taxes and freight rates, which are payable in domestic currency, interest on that part of total indebtedness that is also payable internally, and the cost of supplies obtained from domestic sources whose prices are not determined in the world markets. Of the amount of agricultural income required for total debt service, we are, of course, interested in the proportion that is payable in domestic currency. That this is a major proportion can, of course, be shown by a comparison that would reveal the fact that indebtedness held abroad in every form against Canadian debtors is a minor proportion of the total indebtedness of Canada on every account.

We have attempted in the following section to estimate the loss to Western agriculture of the failure of Dominion monetary policy to maintain equality in competition with Western Canada's important competitors, Australia and Argentina. We believe the cost of failure to follow that policy is in part shown by the difference between the sum that would have been realized upon the exports of Western Canada had the policy of currency alignment been pursued and the sum that was actually realized.

We realize that the rate of exchange as a part of monetary policy is not to be considered only by itself. Here we refer particularly to the policies followed in Australia, which attempted directly to reduce the burden of interest, to reduce wages, to reduce governmental costs, and to place an increased share of the governmental burden upon those receiving income from property sources. But we would assert that the predominant view of the literature on monetary policy in Australia is that the very cornerstone of her monetary policy is that aspect which relates to the exchange rates of the Australian pound in relation to the pound sterling.

One illustration may suffice to show the connection between low interest rates and the rate of exchange. At a later point in this section we show that

that increase in the burden of service on Australian government debt held abroad which may be directly attributed to the rise in the London rate of exchange actually proved to be almost fully offset by the interest savings derived from the refunding operations which were made possible by the favourable trade balance resulting from the exchange depreciation. Moreover, the monetary policy in Australia clearly resulted in higher prices to farmers than would have otherwise prevailed. Without the monetary policy of depreciating the Australian pound against the British pound, the urban communities in Australia would have been receiving a bonus from the farmers in the abnormally low prices of food. Thus, the monetary policy was merely a correction of an unbalanced price situation as between agriculture and other products.

It has been observed that Western Canada finds its export markets (for wheat) chiefly in the United Kingdom and to a lesser extent in Continental Europe. In contrast, Eastern Canada finds its export markets largely in the United States, especially for wood pulp and newsprint, and to a considerable extent for metals. As a result of what we may call these divergent or "crossed" channels of export trade, the actual policy pursued was much more injurious to Western than to Eastern Canada; this was because Western Canada sold in markets whose currency depreciated relative to the Canadian dollar, whereas Eastern Canada sold largely in the United States—a market with an appreciating currency.

In summary it may be said that until 1933 the Canadian dollar *appreciated* against the British pound. As a result Western agriculture, which sold a great share of its wheat products to Great Britain, received a *depreciated* price for its wheat exports to that country. And the changes in the foreign exchange value of the pound sterling probably would not have greatly affected the price of wheat in England. In fact, in 1932, with quotas, exchange controls, and higher wheat tariffs in Germany, France and Italy, the main buyer of world wheat was England. Consequently, the price of wheat in Canada was dependent upon the English price converted into Canadian money with, of course, certain minor qualifications that are of minor quantitative significance. The policy of appreciation of the Canadian dollar relative to the pound sterling up to 1933 diminished the returns to Canada for its exports of wheat. In contrast, Eastern Canada, because, as we have pointed out, of larger sales in the United States, enjoyed an increase in returns from its exports due to the fact that the Canadian dollar was depreciated against the American dollar. Since prices, of newsprint, for example, were determined by conditions in the United States just as prices of wheat were determined to a very considerable extent by conditions in Great Britain, the actual rate of exchange vis-a-vis the United States dollar gave to Eastern exporters to that country a greater monetary return. Thus, we observe from the analysis of the channels of export trade of the various areas of Canada a great diversity of trends resulting from her pronounced economic regionalism, as represented by her three great primary industries, agriculture, metals, and wood and forest products. The resulting pattern of economic consequences may best be described as in the nature of a "whip saw," for the West had its income

THE EFFECTS OF FEDERAL MONETARY POLICY

reduced at a time when its burdens had increased. This action, we have shown, resulted in detrimental effects to Western Canada and certain favourable effects to Eastern Canada, both the result of a single monetary policy common, of course, to all parts of the country.

* * *

NOTE: The Australian Commission on Grants to the States of Western Australia, South Australia, and Tasmania acknowledged and measured the benefit of this exchange policy to the export industries in the three states mentioned. In fact, these benefits were estimated at amounts that were about equal to the losses caused to these three states by Australian tariff policy. It is also interesting to note that the Commission, in determining the amount of the disabilities to these three states arising out of national policy, *deducted* the exchange rate advantage from the losses due to tariff policy. In this way they arrived at a *net* loss amount. We wish to point out that in Canada the disability due to the exchange policy is *to be added* to the disability by the tariff to arrive at the *gross* loss. We consider later the disabilities to the prairie provinces which arise out of the tariff policy of Canada.

THE EFFECTS OF FEDERAL MONETARY POLICY ON WESTERN CANADIAN ECONOMY

INTRODUCTION

In the early period of the depression Dominion monetary policy was directed to maintaining the Canadian dollar at a value that it was believed would facilitate the continuance of payment of interest and principal on debt held abroad. In 1931 Great Britain abandoned the gold standard. In 1933 the United States dollar departed from gold. After 1931 the value of the Canadian dollar was maintained at a level that was roughly midway between the value of the pound sterling and the United States dollar. After 1933 it was held close to parity with the latter. This policy of Canada was believed to facilitate the maintenance of debt service abroad. It avoided, according to its adherents, "too great" an excess cost of exchange in the United States to pay interest on the large volume of debt held in that country. It also was asserted that it avoided "too great" a loss on the large volume of Canada's exports to Great Britain.

If the Canadian dollar had been depreciated to the full extent of Australian currency, that action would have stimulated exports and restricted imports. It would have tended to yield an increased supply of foreign exchange that might have been fully sufficient to offset the increased cost of foreign exchange needed to service Canada's indebtedness abroad. But regardless of what policy may have been in the true interest of Canada as a whole, the costs of the actual policy pursued *rested most heavily upon Western Canada*; and the advantages therefrom, whatever they may have been, accrued to it in smallest measure.

This conclusion is supported by data given in tables which follow this introduction to monetary policy. As is shown in Table 18 (which gives data for each of the years from 1930 to 1936), Western Canada produces more than 90 per cent of all wheat produced in the Dominion. In 1930, for example, the total production of wheat in Canada amounted to 421 million bushels, of which 397 million bushels were produced in the three prairie provinces. Of this total Canadian wheat production, 54 per cent was exported (Table 9). In 1930 exports from the prairie provinces of four grains were valued at 201 million dollars (Table 1), while their total net production of all goods of every kind had a value of 456 millions (Table 3). A comparison of the last two figures reveals that grain exports of the prairie provinces amounted to about *forty-five per cent* of their total net production of all goods. (Similar data for the years from 1930 to 1936 may be found in the tables referred to; their average reveals no substantial difference from the data for 1930.) Table 3 reveals that the major exports of the non-prairie provinces (four metals, wood pulp, and newsprint) averaged about *nine per cent* of the value of the total net production of all non-prairie provinces.

THE EFFECTS OF FEDERAL MONETARY POLICY

These figures indicate that, to the prairie provinces, the importance of exports is from four to five times as great as it is to the non-prairie provinces. Therefore, regardless of whether the policy of maintaining the value of the Canadian dollar as it was maintained after 1931 was appropriate for Canada, that policy nevertheless *weighed far more heavily upon the prairie provinces than upon the rest of the Dominion*, for the receipts of the West from sales abroad are a far greater proportion than for the rest of Canada.

Conversely, a policy of alignment of the Canadian dollar with the currencies of the leading wheat exporting countries would have relieved the pressure resulting from extremely low agricultural prices. Western Canada would have been the greatest gainer from that policy since depreciation of the currency directly and immediately increases the income return to export industries. The increased returns to the West would have aided greatly in the restoration of the most important markets for the products of the East.

There are, of course, certain offsetting burdens to the advantages of currency depreciation. These are primarily the increased cost of imports and the increased cost of debt service abroad. These two debit items are the most important in the Canadian balance of payments. (See Table 22 for data on Canada's balance of payments, 1927 to 1935.) However, the amount of the West's export receipts (after deduction of the cost of its imports) required for debt service is a minor proportion of such receipts. As the cost of debt service amounts to about one-half of the *country's* export balance, the proportion of the West's share in this debt burden is very much smaller in relation to its export receipts. This conclusion is further supported by the fact that the fixed costs of taxes, of freight rates, and of interest on that part of total indebtedness payable internally together constitute a substantial proportion of costs in agriculture and are all payable in domestic currency. On the other hand, maintaining the value of the Canadian dollar greatly benefited Eastern Canada by enabling it to maintain its foreign debt service at a lower cost than would have prevailed in the case of currency depreciation.

The loss to the West from the failure of Dominion monetary policy to maintain equality in competition with Australia and Argentina is shown by the difference between the sum that would have been realized upon the exports of Western Canada had the competitive policy been pursued, and the receipts which were actually realized.¹

1. We realize that the rate of exchange as a part of monetary policy is not to be considered by itself alone. Here we refer particularly to the policies followed in Australia, which included attempts directly to reduce the burden of interest, to reduce wages, and to place an increased share of the governmental burden upon those receiving income from property sources. But the predominant view held in the literature on monetary policy of Australia is that the very cornerstone of the policy is that part relating to the exchange rate of the Australian pound. One illustration may suffice to show the interconnection between low interest rates and the rate of exchange. At a later point (in the case of Australia) we show that the increase in the burden of service of government debt held abroad (which may be directly attributed to the rise in the London rate of exchange) actually proved to be fully offset by the saving in interest charges secured by refunding operations. Moreover, the monetary policy in Australia clearly resulted in higher prices to farmers. Without the rate of exchange policy (depreciation of the Australian pound against the British pound) the urban communities of Australia were getting a bonus from the farmers in the abnormally low prices of food. Thus, the monetary policy was merely a correction of an abnormal price situation as between agriculture and other products.

THE EFFECTS OF FEDERAL MONETARY POLICY

Western Canada finds its export markets (for wheat) chiefly in the United Kingdom, and to a lesser extent in Continental Europe. In contrast, Eastern Canadian export markets are largely in the United States. Because of what we may call these diverging channels of export trade, the Dominion's monetary policy was much more injurious to Western Canada.

Until 1933 the Canadian dollar appreciated against the British pound. As a result, Western agriculture, which sold a great share of its wheat production to Great Britain, received even less for its wheat exports to Great Britain than if the Canadian dollar had been maintained at parity with the pound sterling. This assumes that the changes in the foreign exchange value of the pound sterling would not greatly affect the price of wheat in England. In fact, in 1932, with quotas, exchange controls, and higher wheat tariffs in Germany, France, and Italy and other countries, the main buyer of world wheat was England. Consequently, the price of wheat in Canada was dependent upon the English price converted into Canadian currency, just as the price of newsprint was determined in the United States.

In summary it may be said that appreciation of the Canadian dollar in terms of the pound sterling up to 1933 diminished the returns to the West for its wheat exports, while Eastern Canada, selling much more largely in the United States, enjoyed an increase in returns from its exports, as the Canadian currency was *depreciated* in terms of the American dollar.

POSITION OF FOREIGN TRADE IN THE ECONOMY OF ECONOMIC REGIONS OF CANADA

If attention is directed to some of the more important Canadian exports, it will be found that the proportions exported vary widely for different economic regions. This is illustrated for the West in Table 1, which provides data on (1) total Canadian exports, (2) total Canadian exports of four grains—wheat, barley, oats, and rye, and (3) the amount of these four grains exported by the three prairie provinces, Manitoba, Saskatchewan, and Alberta, and by Manitoba alone.

TABLE 1—RELATION OF PRAIRIE PROVINCE GRAIN EXPORTS TO TOTAL CANADIAN
GRAIN EXPORTS AND TO TOTAL CANADIAN EXPORTS
(In million of dollars)

Value of:	1930	1931	1932	1933	1934	1935	1936
Total Canadian exports of all classes . . .	799.7	600.0	528.1	666.0	756.6	849.0	1,061.2
Exports of four grains:							
For Canada	213.1	151.8	160.1	142.6	164.5	206.9	265.8
For prairie provinces	200.7	137.8	150.4	132.0	153.0	191.8	241.1
For Manitoba	22.4	14.7	16.4	16.7	23.2	17.8	34.6
Ratio of prairie province grain exports to total Canadian exports	25.1%	22.0%	28.5%	19.8%	20.2%	22.7%	22.8%

Source: Canada Year Book, data on export and production, Table 13, and Table G of Appendix.

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The amount of exports from the prairie provinces as given in Table 1 has been determined on the basis of production figures, by assuming that the proportion of Canadian grain *exported* by the prairie provinces is the same as the proportion *produced* by them. The figures have been calculated for each item separately. Mention is made of the method employed for the reason that it is used more extensively below. Canadian grain exports consist almost entirely of prairie province grain because grain production elsewhere in Canada is largely locally consumed. As a result, the above figures for grain exports of the prairie provinces are conservative.

Table 1 reveals how important are Canada's grain exports to her foreign trade and, because of the importance of her foreign trade, to her national economy. These exports roughly averaged about 25 per cent of the total exports of Canada. The range in the period considered was from 28.5 per cent in 1932 to 19.8 per cent in 1933. The exports are, of course, predominantly wheat.

TABLE 2—RELATION OF NON-PRAIRIE PROVINCE EXPORTS OF MINERAL AND FOREST PRODUCTS
TO TOTAL CANADIAN EXPORTS OF MINERAL AND FOREST PRODUCTS AND TO TOTAL CANADIAN EXPORTS
(In millions of dollars)

Value of:	1930	1931	1932	1933	1934	1935	1936
Total Canadian exports of all classes . . .	799.7	600.0	528.1	666.0	756.6	849.0	1,061.2
Exports of four metals, wood pulp, and newsprint:							
For Canada	199.7	168.2	117.2	156.1	169.6	202.9	251.8
For non-prairie provinces	199.5	164.7	114.1	152.2	166.3	198.3	245.8
Ratio of non-prairie mineral and forest exports to total Canadian exports . . .	25.0%	27.4%	21.6%	22.9%	22.0%	23.4%	23.2%

Source: Canada Year Book, data on export and production, and Tables H and I of Appendix.

In Table 2 attention is directed to the exports of the forest and mine—the next two most important foundations of the Canadian economy. We find that the value of the exports of four non-ferrous metals (nickel, copper, lead, and zinc) combined with the exports of two forest products (wood pulp and newsprint) were, in each year from 1930 to 1936, about equal to the total exports of the four grains considered above. The data cover total exports by Canada of the items included and the share of the non-prairie provinces in the exports of these specified items. As for the grain exports in Table 1, total exports of the non-prairie provinces have also been calculated on the basis of total Canadian figures, by assuming that the proportion of their *exports* is equal to the proportion of their *production*. The proportion of four metals, wood pulp, and newsprint exported by the non-prairie provinces to the total Canadian exports ranged from 27.4 per cent in 1931 to 21.6 per cent in 1932. This is about the same as the proportion of Canadian exports made up of four grains from the prairie provinces.

Next in importance to exports of grain and of mineral and forest products stand precious metals, primarily gold, and certain animal products, taken collectively. Each of these items makes up roughly from 10 to 12 per cent of

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total Canadian exports. The inclusion of these two items would extend the analysis but hardly change its results, inasmuch as gold is chiefly an export of the non-prairie provinces, and exports of animal products of the prairie provinces.

Table 3 indicates the importance of the exports of grain and of the four base metals, wood pulp, and newsprint to the respective economic areas of Canada in which they are produced. The prairie provinces are strikingly more dependent upon foreign trade than are the non-prairie provinces. This is indicated by the fact that from 1930 to 1933 the proportion of their total net production represented by exports (of the specified grains) was never less than four times as great as the proportion of the total net production of all commodities of the non-prairie provinces represented by exports (of four base metals and wood pulp and newsprint).

TABLE 3—COMPARISON OF PRODUCTION OF PRAIRIE PROVINCES, MANITOBA, AND NON-PRAIRIE PROVINCES:
TOTAL NET PRODUCTION, VALUE OF EXPORT ITEMS, AND PERCENTAGE OF NET PRODUCTION REPRESENTED
BY THESE EXPORTS, 1930 TO 1935
(Net production figures are in millions of dollars.)

Value of:	1930	1931	1932	1933	1934	1935
Prairie provinces:						
Total net production.....	456.2	419.0	375.4	346.9	376.1	393.9
Grain exports as percentage of their total net production.....	44.0%	32.9%	40.1%	38.0%	40.7%	48.7%
Manitoba:						
Grain exports as percentage of its total net production.....	16.1%	12.0%	16.3%	16.9%	21.8%	17.3%
Non-prairie provinces:						
Total net production.....	2,727.7	2,153.3	1,729.5	1,715.4	1,857.6	2,000.8
Exports of four metals, wood pulp, and newsprint as percentage of their total net production.....	7.3%	7.8%	6.8%	9.1%	8.9%	9.9%

Source: Canada Year Book, data on production, and Tables 1 and 2 above for exports.

It is true, of course, that these two main export groups considered above include only about one-half of the total exports of Canada. However, if the analysis were extended to measure the proportion of *total* foreign trade to *total* production for the prairie and non-prairie provinces, respectively, the above picture would not be substantially changed. In fact, if all exports not covered by the above tables were credited to the non-prairie provinces, their exports would still approximate only 22 per cent of their production, or but one-half of the prairie province grain exports. Another fact emphasizing these results is this: of the exports which are not considered, a substantial amount originate in the prairie provinces. Consequently, in no event can this area be less, we may say, than about three times as dependent on export markets as the rest of Canada. Based upon 50 per cent of Canada's foreign trade its dependence is, as has been indicated, at least four times as great. For Manitoba the importance of foreign trade in these major items is twice that for the non-prairie provinces.

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POSITION OF CANADIAN FOREIGN TRADE BY PRINCIPAL COMMODITY CLASSES

We wish ultimately in this section to examine the effects on the economy of Western Canada of Dominion monetary policy, particularly of the rate of exchange that has recently prevailed.² The effects of federal tariff policy are considered in another section,³ though these effects, of course, relate also to the foreign trade position here under consideration.

We may first direct attention to data covering the total external trade of Canada. Exports and imports in recent years and in 1926 (which has been generally adopted as a base year by the Dominion Bureau of Statistics) are given in Table 4. It will be observed that imports declined much more slowly

TABLE 4—EXPORTS AND IMPORTS OF CANADA: TOTAL VALUE AND INDEXES OF TOTAL
VALUE, 1926 AND 1931 TO 1937
(In millions of dollars)

Year Ending March 31:	Exports	Imports	Indexes (1926=100)	
			Exports	Imports
1926.....	1,321	937	100	100
1931.....	800	907	61	98
1932.....	600	579	45	62
1933.....	528	406	40	44
1934.....	666	434	50	47
1935.....	757	522	57	56
1936.....	849	563	64	61
1937.....	1,061	672	80	72

Source: Trade of Canada.

than exports and that not until 1934 did exports gain relative to imports. Whatever currency or exchange policy might have been desirable, a policy that would have tended to induce retardation of imports and expansion of exports would have been "fair" (with respect to other countries) in the sense that it would have only sustained, not improved, Canada's competitive position. And it would have made easier thereby the maintenance of Canada's debt service abroad.

Table 5 supplies indexes of the average unit price and of the physical volume of total exports and total imports. These data reveal that the physical volume of Canadian imports increased very substantially in 1931. In fact,

² The problem is complicated by the fact that the effects of the rate of exchange cannot be segregated from effects due to related causes, such as credit expansionist policies. We make a number of references to Australia's exchange policy, but we recognize that other policies helpful to that country were also adopted. But we would point out that the rate of exchange is the important aspect of what is referred to as monetary policy when foreign trade is used to measure the effects of that monetary policy. In fact, credit expansionist policies generally exist only where there is freedom of action with respect to the rate of exchange. As Ohlin and others have shown, the initiation of credit expansionist policies in the present depression period, for many countries, could only follow the adoption of a "free" currency.

³ See Part IV, The Effects of Federal Tariff Policy on Western Canadian Economy.

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TABLE 5—EXPORTS AND IMPORTS OF CANADA: INDEXES OF AVERAGE UNIT PRICE AND PHYSICAL VOLUME FOR ALL COMMODITIES, 1926 TO 1936
(1926=100)

Year Ending March 31:	EXPORTS		IMPORTS	
	Index of Unit Price	Index of Physical Volume	Index of Unit Price	Index of Physical Volume
1926.....	100	100	100	100
1931.....	73	83	78	126
1932.....	58	78	65	97
1933.....	52	78	54	81
1934.....	60	84	58	80
1935.....	63	91	64	88
1936.....	66	97	64	95

Source: Trade of Canada.

from 1926 to 1931, imports increased from an index of 100 to an index of 126; during these years the physical volume of exports decreased to a level of 83. With the sharp decline in prices that took place as the depression deepened, the balance of trade, a "favourable" balance for Canada, declined very rapidly. Even if imports had not increased proportionately to exports, the great decline in prices and the smaller decline in physical volume of trade necessarily resulted in a smaller excess value for imports over exports.

Tables 6-8 give indexes of price and volume for four of the most important export classes and two very important import classes; these data are presented in order that the relation of important constituent items may be observed in more detail. Table 6 deals with exports of agricultural and vegetable products and of animals and animal products; the value of the first two mentioned is more than twice that of the latter two. The prairie provinces are, of course, the principal exporters of agricultural products; they are also exporters of animal products to a considerable extent.

TABLE 6—INDEXES OF AVERAGE UNIT PRICE AND PHYSICAL VOLUME FOR TOTAL CANADIAN EXPORTS OF AGRICULTURAL AND ANIMAL PRODUCTS

Year Ending March 31:	AGRICULTURAL AND VEGETABLE PRODUCTS		ANIMALS AND ANIMAL PRODUCTS	
	Index of Unit Price	Index of Physical Volume	Index of Unit Price	Index of Physical Volume
1926.....	100	100	100	100
1931.....	60	80	96	46
1932.....	46	73	63	57
1933.....	42	80	53	53
1934.....	51	66	61	65
1935.....	59	63	65	70
1936.....	59	68	68	78

Source: Trade of Canada.

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It will be observed from the data in Table 6 that the lowest price level for agricultural and vegetable exports existed in the year ending March 31, 1933. The average unit price in that year was but 42 per cent of the price in the base year, 1926. As was indicated in Table 5, the index of unit price of all exports for 1933 was 52, or about 20 per cent above the index for agricultural products in the same year. It will also be observed that by 1935 and 1936 the price of agricultural exports had recovered to 60 per cent of the 1926 level, but that the volume of these exports was still only about *two-thirds of the 1926 volume*. Consequently, exporters of agricultural products, chiefly grains, found that that part of their money income that was derived from exports declined by 40 per cent in average price and by about 33 per cent in total volume. No parallel to this great decline in volume and price existed for any other important class of Canadian exports.

As to animals and animal products, exporters in 1933 found both their volume and their average price level reduced to 53 per cent of the level that prevailed in the base year 1926 (fiscal years). Even by 1936 the price of animal product exports had recovered to only two-thirds of the 1926 price level, and the volume of these exports was still but four-fifths of the volume in 1926, despite sharp gains in cattle exports in 1935 and 1936.

Table 7 gives data for two other important classes of Canadian exports: all non-ferrous metals and all wood and paper products. As above for agricultural and animal products, indexes of unit price and physical volume are listed. It will be observed that these exports combined approximately equal total agricultural exports (not including animal products).

TABLE 7—INDEXES OF AVERAGE UNIT PRICE AND PHYSICAL VOLUME FOR TOTAL CANADIAN EXPORTS OF NON-FERROUS METALS AND WOOD AND PAPER PRODUCTS

Year Ending March 31:	NON-FERROUS METALS AND THEIR PRODUCTS		WOOD AND PAPER PRODUCTS	
	Index of Unit Price	Index of Physical Volume	Index of Unit Price	Index of Physical Volume
1926.....	100	100	100	100
1931.....	81	106	85	97
1932.....	57	158	76	83
1933.....	56	170	65	66
1934.....	78	212	53	89
1935.....	75	249	57	101
1936.....	91	229	57	114

Source: Trade of Canada.

The position of the mining industry of Canada in recent years is striking. Although the unit price of exports of non-ferrous metals declined to a level of 56 in 1933 as compared to 1926, this unit price had recovered to about 90 by 1936. But in the same period the volume of exports of non-ferrous metals increased to *more than double the volume of 1926*. The sharp recovery in volume was at first largely due to general world recovery and to the increase in the price of gold. But the continued improvement in both price and volume is

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perhaps more to be associated with present rearmament in Europe. In this connection it may not be amiss to point out that the present plight of agriculture may later apply to the position of important branches of the mining industry, since they have developed to so great an extent upon what may prove to be not a permanent basis—that is, rearmament and a recovery in the production of durable goods that cannot be sustained when post-depression replacements are substantially completed.

During the depression wood and paper exports experienced a sharp decline in unit price quite proportionate to the decline in agricultural prices. This situation is slowly being relieved, partially by large increases in output and in prices of newsprint paper, as well as by the anticipation of further price increases. In 1935 and 1936 their volume increased substantially, about 50 per cent as compared with 1933.

As we have shown, export receipts of agriculture fell, at the low point in the depression, to less than 40 per cent of the receipts in 1926. For animal products, the receipts in fiscal 1937 were slightly less than 50 per cent of 1926 receipts. But for non-ferrous metals, the receipts were no less than double those of 1926; and for wood and paper exports, receipts are rapidly approaching the levels of pre-depression years. We now contrast this survey of Canada's four important *export* industries (which accounted for 88 per cent of total exports in the fiscal year ended March 31, 1937) with the record of *imports* of iron and its products and of non-metallic minerals and manufactures thereof (which accounted for 40 per cent of the total imports of the same year). Imports of iron and its products include a large proportion of durable manufactured goods; the non-metallic imports include the very important non-durable items of coal and petroleum products. Table 8 furnishes the index of unit price and physical volume for these two classes of imports.

TABLE 8—INDEXES OF AVERAGE UNIT PRICE AND PHYSICAL VOLUME FOR TOTAL CANADIAN IMPORTS OF IRON AND ITS PRODUCTS AND NON-METALLIC MINERALS

Year Ending March 31:	IRON AND ITS PRODUCTS		NON-METALLIC MINERALS	
	Index of Unit Price	Index of Physical Volume	Index of Unit Price	Index of Physical Volume
1926	100	100	100	100
1931	99	107	79	139
1932	98	55	62	119
1933	97	34	66	96
1934	82	47	58	104
1935	85	65	70	105
1936	88	72	65	117

Source: Trade of Canada.

It is apparent that the *price* of imports of iron products declined but slightly, although the *physical volume* of the imports declined very substantially in the three years 1932, 1933, and 1934. The price of coal and petroleum products declined to two-thirds of the level prevailing in 1926. (In 1926,

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however, prices for petroleum in the United States were relatively high and the price of coal may have been affected by conditions in the United Kingdom; these two commodities are perhaps the only two for which 1926 is not a desirable base year for comparison.) The quantum of coal and oil imports has been above the volume of the base year in every year except 1933, when there was a decline of only 4 per cent. In the period since 1930 imports of crude petroleum have increased approximately 10 per cent in volume over imports for 1930. This is fairly consistent with the total sales of gasoline in Canada. But it should be pointed out that although total sales of gasoline were fairly well maintained in the Dominion as a whole, sales in Manitoba declined by as much as 25 per cent from 1930 to 1934. In Saskatchewan the decline was more than 50 per cent.⁴

We shall consider later some of the causes of the unfavourable position of Western agriculture. But it may be stated at this point that Western agriculture stands in the unhappy position of depending most heavily of all main industries in Canada upon export markets, and that it has had the most unfortunate experience of all these industries in the volume of its export trade and the prices at which that volume has been sold.

POSITION OF WHEAT IN CANADA AND OF CANADIAN WHEAT IN WORLD TRADE

Normally Canada exports about 60 per cent, in some years much more, of its production of wheat, 90 to 95 per cent of which is grown in the prairie provinces. As pointed out earlier, these exports of wheat account for about two-thirds of all Canadian agricultural and vegetable product exports, and for about 40 per cent of the total net production of all types of the three prairie provinces.

TABLE 9—PRODUCTION AND EXPORTS OF WHEAT FOR FOUR
COUNTRIES, 1930 AND 1934
(In millions of bushels)

Country	1930			1934		
	Wheat Production	Wheat Exports	Percentage Exported	Wheat Production	Wheat Exports	Percentage Exported
Canada.....	421	228	54%	276	144	52%
Australia.....	213	128	60%	134	75	56%
Argentina.....	236	118	50%	241	176	73%
United States.....	858	77	9%	497	2	....

Source: Canada Year Book.

Canada's principal competitors of importance in the world wheat market are Australia, Argentina, and in normal years, although not recently, the United States. Table 9 gives data on production, exports, and the percentage of production exported from these countries in 1930 and 1934. It will be observed that Canada, Argentina, and Australia each export approximately the same proportion of their total production of wheat. In contrast even with

4. Figures for gasoline sales are regularly available in the Canada Year Book.

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normal crops, the United States may hardly be expected to export any more than 20 per cent of its production. As far as can be concluded on the basis of these data, Canada, Australia, and Argentina are fairly comparable with respect to their total production of wheat. But in Canada wheat is the foremost export; in Argentina, meat; and in Australia, wool. In order to show the predominant position of wheat in Canadian economy, Table 10 lists the eleven most important Canadian exports and their export value in the year ending March 31, 1936.

TABLE 10—VALUE OF ELEVEN LEADING EXPORTS OF CANADA IN 1936
(In millions of dollars)

Commodity	Amount Exported	Commodity	Amount Exported
Wheat.....	149	Automobiles.....	24
Newsprint paper.....	91	Copper.....	24
Gold.....	83	Wheat flour.....	19
Nickel.....	42		
Wood pulp.....	28	Total.....	536
Planks and boards.....	28	All other exports.....	313
Fish.....	24		
Meats.....	24	Total exports.....	849

Source: Trade of Canada.

EXPORT PRICES OF WHEAT IN CANADA, AUSTRALIA, AND ARGENTINA COMPARED WITH THE IMPORT PRICE IN THE UNITED KINGDOM

The data given in Table 11, based upon Table D in the Appendix, provide indexes of the *export* price of wheat in domestic currencies for Canada, Australia, and Argentina and the *import* price of wheat in the United Kingdom in pounds sterling. The comparison of the domestic price of wheat exports

TABLE 11—EXPORT PRICE LEVELS FOR WHEAT IN CANADA, AUSTRALIA, AND ARGENTINA,
AND THE IMPORT PRICE FOR THE UNITED KINGDOM, 1926 to 1936
(1926=100)

Year	Indexes of Export Prices			Index of Import Price for United Kingdom
	Canada	Australia	Argentina	
1926.....	100	100	100	100
1927.....	93	98	82	94
1928.....	81	88	82	85
1929.....	86	88	73	79
1930.....	57	44	..	63
1931.....	43	54	44	39
1932.....	38	53	114	47
1933.....	48	51	95	42
1934.....	56	54	107	41
1935.....	58	65	123	46
1936.....	69	..	..	..

Source: Table D, Appendix.

reveals that only in Canada did the price fall below 40 per cent of the 1926 level. Moreover, only in Canada did the price of wheat remain *for three years* below 50 per cent of the 1926 export price, the average for 1931-33 having an index of 46. In both Australia and Argentina the price declined to a low point of 44 per cent of the 1926 level, but after 1930 and 1931 there was a 20 per cent recovery in the price for Australia and an even greater recovery in the price for Argentina. In other words, the trend of the export price of wheat was upwards for Australia in 1931 and for Argentina in 1932, but in 1932 the very lowest prices of the last decade prevailed in Canada. It has been said that countries producing raw materials were the first in and the first out of the depression. This statement does not appear to be applicable to Canada. The price movements here commented on are considered in more detail in connection with the exchange rate, which, of course, is the factor permitting the diverse trends we have observed.

The prices which have been compared are, of course, price levels in domestic currencies, but it is this price in domestic currency, together with volume of production, that determines the income of the producer. The *domestic* price of wheat in the producing countries is determined *in part* by the Liverpool price and by the rate of (sterling) exchange.

WHEAT EXPORTS AND THE MONETARY POLICY OF AUSTRALIA

Some light may be thrown on the wheat export situation in Canada by first considering the experience of Australia. The heavy depreciation of the Australian pound in terms of the pound sterling occurred in the month of January, 1931. From 1929 up to that time the Australian pound had been held fairly close to parity. The depreciation in 1930 had averaged only about 5 per cent. But from the last of January, 1931, to the end of that year 100 pounds sterling commanded 130 pounds Australian, and since 1931 the rate of exchange has been pegged uniformly at 125. This rate means that the pound sterling has appreciated by 25 per cent or, in other words, the Australian pound has depreciated by 20 per cent.

When this exchange rate of 125 pounds sterling to 100 pounds Australian is used, exports of Australia to the United Kingdom produced, in Australia's own currency, an increase of 25 per cent in her export receipts, assuming sterling prices to be unaffected by Australian depreciation. We may consider, briefly, the total amount of the premium thus secured for Australian wheat exporters. Table 12 gives data on production of wheat, on exports of wheat and flour, on the value of these exports in Australian pounds, and on the increment of this value resulting from the exchange premium of 25 per cent. It will be observed that the increase in value is calculated only on the quantity exported. This increase in price would, of course, favourably affect the domestic price.

It will be observed that despite a very low level of exports in the past two or three years, the exchange policy netted an increase of 18.3 million pounds, or very roughly, 90 millions of dollars, to wheat exporters upon the quantity

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exported for the five years ending June 30, 1936. The average annual rate of gain to wheat exporters was about 18 million dollars, or about fifteen cents a bushel. If it is assumed that 70 per cent of the crop is exported, which is the average for the period considered, the exchange policy resulted in an

TABLE 12—PRODUCTION OF WHEAT, EXPORTS OF WHEAT (INCLUDING FLOUR), AND EXCESS OF EXPORTS DUE TO EXCHANGE DEPRECIATION, FOR AUSTRALIA, 1931-32 TO 1935-36

Year	Wheat Production (in millions of bushels)	Wheat Exports Including Flour (in millions of bushels)	Value of Wheat Exports (in millions of Australian pounds)	Calculated Excess Value Due to Exchange Rate Premium of 25% (in millions of pounds)
1931-32.....	190.6	156.7	23.1	4.6
1932-33.....	213.9	148.9	22.0	4.4
1933-34.....	177.3	87.6	12.1	2.4
1934-35.....	133.4	109.5	16.2	3.2
1935-36.....	142.6	106.6	18.5	3.7
Total.....				18.3
Annual Average.....				3.6

Source: Official Year Book of Australia.

increase in receipts of over 17 per cent on the total amount of Australian wheat production, not considering the domestic price for wheat domestically consumed. During these years the exports of wheat had a total annual average value of over 90 million dollars; the exports of wool about 215 million dollars. If the gain on wheat exports was 18 million dollars yearly, then it may be estimated that the benefit to the wool exporters from the exchange policy was roughly 40 million dollars a year. Table E of the Appendix provides a distribution of the more important exports of Australia from which the data for wool exports given here have been calculated.

EFFECTS OF THE EXCHANGE POLICY OF CANADA ON THE GRAIN GROWERS OF MANITOBA

Table 13 summarizes the share of Manitoba in the total Canadian exports of four grains, and estimates the increase in value that would have been obtained for these exports if the Canadian dollar had been held at a discount of 20 per cent from the pound sterling and if the sterling price of wheat had remained unaffected by Canadian depreciation. This discount is based on the assumption that, if depreciated, the Canadian rate of exchange on London would have been kept in line with the Australian rate, which was considerably less than the depreciation existing in the Argentine. Since Australia and the Argentine are the principal wheat competitors of Canada, a depreciation of the currency of Canada at least comparable to that of Australia was required in order to allow wheat producers to compete upon equal terms with their competitors in the world markets. We consider at a later point those data on

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the balance of payments of Canada and her overseas indebtedness that bear on the feasibility of this "depreciated exchange policy."

The Canadian failure to adopt an exchange policy comparable to that of Australia cost the grain exporters of Manitoba no less than \$35,600,000 in the six years from 1931 to 1936. This cost averages only slightly less than 6 million dollars annually, an amount almost equal to the total taxes collected annually by the province of Manitoba during this period. When one observes that the price of wheat imports of the United Kingdom remained in each year from 1932 to 1935 at a level of about 45 per cent of the level of 1926, it is readily apparent that the improved price in Australia, beginning in 1931, and the greatly improved price in Argentina were both the result of depreciated foreign exchange values of their own currencies. Except for premiums or discounts due to differences in quality and annual variations in the supply of various types of wheat, the greater variation in domestic export wheat prices of Australia and Argentina than in those of Canada is the result of the currency policy that was deliberately adopted to secure these benefits.

TABLE 13—CALCULATED VALUE OF GRAIN EXPORTS OF MANITOBA (WHEAT, WHEAT FLOUR, BARLEY, RYE, AND OATS), 1930 TO 1936, AND CALCULATED INCREASE IN VALUE OF EXPORTS AT EXCHANGE RATE OF 100 TO 125
(In millions of dollars)

Grain	1930	1931	1932	1933	1934	1935	1936	Total 1930-36
Wheat.....	21.9	11.7	14.6	16.1	20.4	16.3	29.9	
Barley.....	0.4	2.3	1.1	0.2	2.3	1.0	3.9	
Oats.....	0.1	0.4	0.4	0.2	0.4	0.4	0.2	
Rye.....	0.0	0.3	0.3	0.2	0.1	0.1	0.6	
Total.....	22.4	14.7	16.4	16.7	23.2	17.8	34.6	
Gain in value at exchange rate of 100 to 125.....		4.3	8.7	5.6	5.1	4.2	7.7	35.6

Before turning to the measurement of the effects of currency policy upon the agricultural incomes in all of the prairie provinces, an interesting and brief example from the butter trade of New Zealand and the United Kingdom may be presented to clarify the problem. Table 14 gives indexes (derived from Table F of the Appendix) of the movements of the export price of butter in New Zealand from 1929 to 1936, and the import price in the United Kingdom for the same period. It will be observed that the price of butter imported into the United Kingdom declined by 60 per cent from 1929 to 1934, but that during the same period the price of butter exported by New Zealand declined by only 48 per cent. From 1933 to 1935, inclusive, the index of the price of butter in New Zealand was about 20 per cent above the index of the price of butter in the United Kingdom. The explanation of this lies in the fact that between these two periods the New Zealand pound, like the Australian pound, was depreciated by 20 per cent; or, to put it the other way around, as is generally done in referring to this rate of exchange, 100 pounds sterling yielded, when converted, 125 pounds New Zealand. Thus New Zealand, by permitting

the value of her pound, relative to the pound sterling, to fall, was able to maintain the export price of butter in the worst year of the depression, 1934, as much as 30 per cent above the price in the United Kingdom. The latter price may have been affected by the action of New Zealand, but the recovery in New Zealand is evidence of the favourable *net* results of its policy. A fairly close parallel to this price problem of New Zealand butter is the case of Canadian wheat. It will be recalled that export prices of Canadian wheat fell to less than 40 per cent of its value in 1926. It is this question, the treatment of Western Canadian agricultural producers, that we wish to consider below, for Western Canada competes in the world markets, and a high proportion of its total business, as we have shown, is carried on in the world markets in competition with Australia and Argentina.

TABLE 14—INDEXES OF EXPORT PRICE OF NEW ZEALAND BUTTER IN DOMESTIC CURRENCY AND IMPORT PRICE OF BUTTER IN THE UNITED KINGDOM IN DOMESTIC CURRENCY, 1929 TO 1936

Year *	Index of Export Price of New Zealand	Index of Import Price of United Kingdom
1929.....	100	100
1930.....	88	80
1931.....	68	67
1932.....	63	57
1933.....	55	46
1934.....	52	40
1935.....	51	48
1936.....	65	53

Source: Table F of Appendix.

*Calendar year for the United Kingdom; fiscal year ending June 30 for New Zealand.

There is, of course, a competitive aspect to be considered in connection with the alignment of exchange rates to effect improvement in internal price. The whole question must take into consideration the fact that competitive countries, producing for the world market, can only with the greatest of difficulty co-operate in their mutual interests. Moreover, the fundamental cause for currency depreciation in food and raw material producing countries has, we believe, been demonstrated by the data covering the price level for British imports (which is considered in the Appendix to this section and supplied in detail in Table A of the Appendix). These data reveal that in 1932 the United Kingdom secured in the world markets, largely from the raw material producing countries, including Canada, Australia, and Argentina, a slightly larger tonnage of foods and raw materials than in 1932 for a total price that declined from slightly more than three billion dollars to about one and one-third billion dollars. By currency value changes in countries other than Canada an attempt was made to redress this disequilibrium.

CANADA'S RATE OF EXCHANGE

At a later point we reveal that, tested by the effects of their currency policies upon holdings of foreign funds, Australia and New Zealand (and more

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recently Argentina) accumulated substantial sterling balances in the very period in which Canada suffered decreases in her foreign banking assets. Judged by this standard, the former countries over-depreciated while Canada appreciated.

Parity of the rate of exchange on London is \$4.867. Table 15 shows the fluctuations in this rate of exchange in recent years. The index of the rate of exchange may be directly considered as the proceeds which export sales to the United Kingdom would yield the seller in Canadian dollars. In 1931, when the pound rate was \$4.703, the pound yielded 96.63 per cent of its parity value; this 96.63 may be expressed in the decimal coinage of Canada as 96.63 cents on the dollar. Or the rate may be expressed as 100.00 to 96.63, which serves better to contrast with the rate for Australia on London, which we have referred to as 100 to 125. That is to say, the Australian exporter found his sales to the United Kingdom yielding 125 per cent of normal or par, or, as we might put it, 125 cents on the dollar.

TABLE 15—STERLING RATE OF EXCHANGE ON CANADA AND INDEX OF RATE, 1930 TO 1936

Year	Rate of Exchange in London	Index of Rate
1930.....	4.870	100.00
1931.....	4.703	96.63
1932.....	3.977	81.71
1933.....	4.565	93.81
1934.....	4.987	102.47
1935.....	4.925	101.19
1936.....	4.975	102.22

Source: Monthly Bulletin of Statistics, League of Nations.

Now if the Canadian rate had been 100 to 125 instead of 100 to 96.63, the Canadian exporter would have received 125 per cent of parity in 1931, rather than 96.63 per cent. The resulting increase in receipts would be measured by 28.37 (125.00 minus 96.63). Since only 96.63 cents on the dollar was received, the increase of 28.37 should be measured on this base; the resulting increase would have been $\frac{28.37}{96.63}$, or 29.36 per cent above actual receipts. Using this method of calculation, we can construct a table of the percentages by which receipts would have increased if the Canadian rate of exchange on London had been, not the rates given in Table 15, but a constant rate of 100 to 125. Using this latter figure, the London exchange rate would have been 125 per cent of the parity of \$4.867, or \$6.084. Table 16 gives the increase in export receipts that would have been made available to wheat exporters if a rate like that of Australia's had been maintained.

The effects of a low rate of exchange on London may be reflected in another way. When, in 1932, the rate was \$3.9777, or 81.71 per cent of parity, the converse of the "cheap pound" was a dear Canadian dollar. From the point of view of a buyer in the United Kingdom, the Canadian dollar was then at a rate of only \$3.9777 to the pound, instead of the parity rate of \$4.867. Instead of being able to obtain about \$4.87 in Canadian funds for his pound

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the British buyer or importer obtained only \$4.00. In other words, the Canadian dollar cost one-quarter of a pound instead of the parity rate of about one-fifth of a pound. The decrease in the value of the pound from \$5.00 to \$4.00 represented the converse of a 25 per cent appreciation of the Canadian dollar.

Using the exchange rates given in Table 15, Table 17 presents the *increase in cost of Canadian goods to the British buyer* in comparison with the *decrease in cost of Australian goods* (other things, i.e., prices, being unchanged).

TABLE 16—PERCENTAGE INCREASE IN EXPORT RECEIPTS, ASSUMING A RATE OF 100 TO 125,
1930 TO 1936

Year	Index of London Rate of Exchange	Percentage Increase in Export Receipts at 100 to 125 Rate
1930.....	100.00	
1931.....	96.63	29.36
1932.....	81.71	52.98
1933.....	93.81	33.25
1934.....	102.47	21.99
1935.....	101.19	23.53
1936.....	102.22	22.28

Source: Table 15.

The Australian rate of exchange on London of 100 (pounds sterling) to 125 (pounds Australian), for example, would require a British importer of hides to pay in British money only 100 pounds for 125 Australian pounds worth of hides where, before the depreciation of the Australian pound, he had to pay 125 pounds sterling. The difference in the two currencies is most striking in 1932. In that year British purchasers of Canadian goods had to pay 22 per cent more or 122 pounds sterling for Canadian goods that formerly could be bought for 100 pounds sterling. The decline in the price of Australian goods tended either to increase the quantities sold by Australia to Great Britain or to increase the price the Australian exporter received. On the other hand, the increase in the British rate of exchange on Canada tended either to reduce the prices that Canadian exporters received or to reduce the quantities that could be sold.

TABLE 17—PERCENTAGE OF APPRECIATION OF CANADIAN DOLLAR AND DEPRECIATION OF
AUSTRALIAN POUND IN COMPARISON WITH THE POUND STERLING, 1931 TO 1936

Year	Percentage Appreciation of Canadian Dollar	Percentage Depreciation of Australian Pound
1931.....	3.49	—22.50
1932.....	22.38	—20.00
1933.....	6.62	—20.00
1934.....	—2.37 (depreciation)	—20.00
1935.....	—1.18 (depreciation)	—20.00
1936.....	—2.17 (depreciation)	—20.00

Source: Monthly Bulletin of Statistics, League of Nations.

In that year (1932) the British importer, of wheat for example, could obtain Australian pounds at a discount of 20 per cent from parity, but was required to pay a premium of over 22 per cent above parity for Canadian funds. The result of this situation was that much less was paid for Canadian wheat in

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Canadian funds. A single price prevailed in Liverpool—the world price; this meant that the Australian price could rise, but that the Canadian price would have to fall, and fall sharply, so that the lowered price would offset the higher cost of Canadian funds.

THE COST OF THE EXCHANGE POLICY OF CANADA TO THE WHEAT GROWERS OF THE PRAIRIE PROVINCES

Manitoba is a smaller producer of wheat than are the provinces of Alberta and Saskatchewan. It is, however, very greatly interested in the income of its two sister prairie provinces, since a considerable portion of its income is derived from the servicing of wheat for Alberta and Saskatchewan, and from a large wholesale trade with distributors of agricultural supplies in those provinces. In fact, the statement that Manitoba is nearly as much interested in the wheat production of Alberta and Saskatchewan as it is in its own production might not be far wide of the mark.

For this reason we turn now to the effects of the exchange rate policy prevailing in Canada from 1931 to 1936 upon the incomes from wheat production in the three prairie provinces. Table 18 supplies information on the total production of wheat in Canada and in the prairie provinces since 1930. The amount of production within each prairie province is given, as well as the percentage distribution for the wheat production of all three provinces and of each province individually. Finally, for comparison, the total value, in millions of dollars, of Canadian exports of wheat and flour is given.

As has been explained elsewhere, the exports of wheat by the prairie provinces are derived by applying percentages prevailing for *production* (see Table 18) to the *export* figures. This method probably slightly underestimates the wheat exports of the prairie provinces, since these provinces export a greater proportion of their crop than the Eastern provinces, which raise wheat largely for domestic consumption. Table 19 gives the results of this method

TABLE 18—WHEAT PRODUCTION IN CANADA AND IN THE PRAIRIE PROVINCES, 1930 TO 1936

Wheat Production in:	1930	1931	1932	1933	1934	1935	1936
AMOUNT IN MILLIONS OF BUSHELS							
All Canada.....	420.7	321.3	443.0	281.9	275.8	281.9	229.2
Prairie provinces.....	397.3	301.2	422.9	263.0	263.8	264.1	212.0
Manitoba.....	43.6	28.1	44.0	32.6	37.1	22.5	28.0
Alberta.....	147.0	140.6	167.3	102.3	112.5	102.0	67.0
Saskatchewan.....	206.7	132.5	211.6	128.0	114.2	135.0	117.0
PERCENTAGE DISTRIBUTION							
All Canada.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Prairie provinces.....	94.4	93.7	95.5	93.3	95.6	93.7	92.5
Manitoba.....	10.4	8.7	9.9	11.6	13.5	8.0	12.2
Alberta.....	35.0	43.8	37.8	36.3	40.4	36.2	29.2
Saskatchewan.....	49.0	41.2	47.8	45.4	41.7	49.5	51.1
VALUE OF CANADIAN EXPORTS OF WHEAT (INCLUDING FLOUR)							
All Canada.....	210.3	134.6	147.5	138.7	150.8	198.5	245.1

Source: Canada Year Book.

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of figuring the wheat exports of the prairie provinces. In Table 20, by applying the increase in value of the pound sterling that would have obtained if the Canadian dollar had been held at a discount of 20 per cent from the pound, we obtain the increase in value of wheat exports that would have resulted to the three prairie provinces, taken together and individually.

TABLE 19—VALUE OF WHEAT EXPORTS OF THE PRAIRIE PROVINCES, 1930 TO 1936
(In millions of dollars)

Province	1930	1931	1932	1933	1934	1935	1936
Manitoba.....	21.9	11.7	14.6	16.1	20.4	16.3	29.9
Saskatchewan.....	103.1	55.5	71.5	63.0	62.9	97.8	125.2
Alberta.....	73.5	58.9	54.8	50.3	60.9	71.9	71.6
Total.....	198.5	126.1	140.9	129.4	144.2	186.0	226.7

Source: Table 18 above.

TABLE 20—ESTIMATED INCREASE IN VALUE OF WHEAT EXPORTS FROM HOLDING THE CANADIAN DOLLAR AT
A DISCOUNT OF 20 PER CENT, 1931 TO 1936
(In millions of dollars)

Province	1931	1932	1933	1934	1935	1936
Manitoba.....	3.4	7.7	5.4	4.5	3.8	6.7
Saskatchewan.....	16.3	37.9	21.0	13.8	23.0	27.9
Alberta.....	17.3	29.0	16.7	13.4	16.9	16.0
Total.....	37.0	74.6	43.1	31.7	43.7	50.6

The cost of exchange policy to prairie province wheat producers, as given in Table 20, can be summarized as follows:

	<i>Total for 6 Years</i> (In millions of dollars)	<i>Annual Average</i>
Manitoba.....	31.5 ✓	5.3
Saskatchewan.....	139.9	23.3
Alberta.....	109.3	18.2
Total for prairie provinces.....	280.7	46.8

We may now point out that had Canada kept the value of her currency in relation to the British pound at the same level that obtained in Australia, wheat producers in the prairie provinces, for the six-year period ending with 1936, would have received an average annual increase of 47 million dollars for that part of their wheat that was exported. This assumed average annual excess of 47 million dollars is almost three times the total taxes of 16 million dollars collected by the three prairie provinces in 1934, and exceeds the 45 million dollars collected in taxes by all of the municipalities in Manitoba, Saskatchewan, and Alberta in 1933. The importance of this potential source of increased income to prairie province producers of wheat may be emphasized by pointing out that a high proportion of their income is derived from the sale of their products to the United Kingdom. Eastern Canada, on the other hand, sells much more largely to the United States, though the total volume of its export sales represents a much smaller share of its total income.

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In the foregoing analysis we have considered the exchange rate only vis-a-vis London, since the sales of prairie province wheat are largely in the United Kingdom. But by lowering the exchange rate the same increase in receipts would have been received from sales on the Continent.

We may also point out that failure to adopt an appropriate exchange policy dammed up wheat at home. Other plans were offered in aid of the situation, but their assistance was only a mere fraction of the benefit that would have accrued to the West from the maintenance of Canada's competitive position. It is frequently asserted that the withholding of surplus supplies of wheat (a policy often recommended) cannot improve prices since the withheld supplies remain a part of "statistical supply."

NATIONAL INDEBTEDNESS

Before viewing the external situation represented by the balance of payments in relation to monetary policy, we turn to a consideration of the comparative foreign indebtedness of Canada, Australia, and New Zealand. The purpose of this comparison is to determine whether or not the picture for the three countries is so markedly different that what appears to be an obviously desirable monetary policy for Australia and New Zealand would prove inadvisable for Canada. In Table 21, which gives selected data on the foreign indebtedness of each of these three countries, the Australian and the New Zealand pound have been converted at the rate of \$5.00. The purpose of this conversion is to reduce the figures for the three countries to a common basis

TABLE 21—COMPARISON OF TOTAL AND NET FOREIGN INDEBTEDNESS, WITH SELECTED RATIO COMPARISONS OF THE BURDEN OF SUCH INDEBTEDNESS: CANADA, AUSTRALIA, AND NEW ZEALAND, 1928 OR 1929 AND 1932
(In millions of dollars; Australian and New Zealand pounds converted at \$5.00.)

	Canada		Australia		New Zealand	
	1928	1932	1928	1932	1929	1932
Population	10,376,786 (1931)		6,514,127 (1931)		1,491,484 (1936)	
Capital invested by foreigners	5,892	6,839	3,838	4,025	996	1,031
Capital invested abroad	1,739	2,081	413	412	73	48
Net indebtedness	4,153	4,758	3,425	3,613	923	983
Net interest and dividends paid	188	215	174	142	43	41
Average rate paid	4.5%	4.5%	5.1%	3.9%	4.6%	4.2%
National income	6,342	3,403	(not available)		(not available)	
Net interest and dividends paid:						
(1) As percentage of national income	2.96%	6.33%	(not available)		(not available)	
(2) Per capita	\$18.12	\$20.75	\$26.76	\$21.78	\$28.76	\$27.62
(3) As percentage of balance of payments receipts (see Table 22) . . .	54.63%	72%	75%	87%	50.142%	74%
Total production (net value)	4,122	2,062	2,264	1,525	633	418
Interest and dividends as percentage of value of national production	4.56%	10.44%	7.70%	9.30%	6.78%	9.86%

Sources: Canada, Canada Year Book; Australia, Official Year Book; New Zealand, Official Year Book.

and a basis—dollars—that will facilitate comparison with Canada. No purpose would be served by converting the Australian and New Zealand currencies at the going rates of exchange, inasmuch as the purpose of the comparison is to estimate the *internal* burden of external debts.

The data in Table 21 reveal that in 1928 both New Zealand and Australia paid a higher average rate of return on total investments of foreigners than did Canada; in 1932, however, the average rate paid by these two countries was substantially lower than that paid by Canada. This suggests a possible cost to Canada on her deflationary currency policy. The per capita payments on foreign investments (a measure for comparing the internal burden of external debt) are lowest in Canada, although in 1932 her payments closely approached the per capita payment on foreign indebtedness by Australia. The percentage of net balance of payments receipts (as calculated in Table 22) required for foreign debt service was lower in Canada than in Australia in 1928. In 1932 Canada and New Zealand required about three-quarters of such receipts for service on foreign capital, Australia seven-eighths of such receipts. Finally, the interest and dividends paid in 1928 represented a substantially lower percentage of the value of national production of Canada than of the other two countries. In contrast, in 1932 about ten and one-half per cent of her national production was required by Canada for debt service; this proportion only slightly exceeded that of New Zealand, and compares with nine and one-third per cent for Australia.

Since these comparisons of foreign indebtedness and the cost of service on that indebtedness reveal no significant variation, there is no evidence that Canada needs a substantially different currency policy because of different debt and debt service burdens.

BALANCE OF PAYMENTS POSITION OF CANADA, AUSTRALIA, AND NEW ZEALAND

A consideration of the balance of payments position of a country is prerequisite to determining the monetary policy it may pursue. For example, a country maintaining gold convertibility through gold shipments is, of course, not free to practice strongly expansionist monetary measures. Such measures would induce a gold outflow, which would jeopardize the maintenance of the gold standard. This particular objection was not of moment to Canada, Australia, or New Zealand, inasmuch as a rigid gold standard was not maintained in any of these countries in 1931.

In reviewing the balance of payments position of these three countries, the average balance for each country has been obtained for three selected periods. Data basic to the preparation of these average balances of payments are given in Tables J, K, and L of the Appendix. The annual balance of payments for each country is also supplied for certain years in Table M of the Appendix. In preparing the averages, these periods have been selected: (1) the year or the two years prior to the renewal of pronounced capital imports of

TABLE 22—COMPARATIVE AVERAGE ANNUAL BALANCE OF PAYMENTS FOR CANADA, AUSTRALIA, AND NEW ZEALAND FOR THREE SELECTED PERIODS

Account	FIRST PERIOD		SECOND PERIOD			THIRD PERIOD		
	Canada Annual Average, 1927-28	New Zealand Annual Amount, 1928-29	Canada Annual Average, 1929, 1930, 1931	Australia Annual Average, 1929-30	New Zealand Annual Average, 1929-30, 1930-31	Canada Annual Average, 1932, 1933, 1934, and 1935	Australia Annual Average, 1930-31 to 1933-34	New Zealand Annual Average, 1931-32 to 1934-35
Merchandise export balance....	93	(not available)				64	84	33
Service account net balances								
(tourists).....	204	-2	224	11	-1	72	8	-2
Gold exports.....	48	6	31	71	3	62	43	7
Capital imports.....		32	111	143	29	3		
Total net credit balances	345	84	366	225	31	201	135	38
Merchandise import balance....								
Interest and dividends paid (net)	187	42	126	132	10	144	117	28
Capital repayments.....	5		229	168	44		43	2
Balance due to errors and omissions.....	153	42	11	-75	-23	57	-25	8
Total net debit balances	345	84	366	225	31	201	135	38

Source: Tables J, K, and L of the Appendix.

all three countries, so general in still earlier years; (2) the years from 1929 to 1931, a period of renewal of substantial capital imports for each of the three countries; (3) the more recent years, characterized in all three countries by the disappearance of capital imports and the appearance of financing of foreign debt service through what might be called "ordinary" balance of payments receipts.

A general review of these condensed statements of the balance of payments for the three countries impresses one with the high degree of proportionality of the accounts. In the first period both Canada and New Zealand had fairly substantial export balances. Total receipts from net merchandise exports, service accounts, and gold exports for both countries were approximately twice the amount required for the payment of interest and dividends on foreign investments.

In the second period all three countries had a net import balance on merchandise account. During this period an average of slightly more than one-half the total amount of interest and dividend payments abroad may be said to have been re-invested by foreigners. This assumes, as has been frequently done, that the capital imports, or the loans incurred for the payment of these imports, may be considered as representing a re-investment of the interest and dividends which foreigners have received.

In the third period merchandise export balances were restored for all three countries. Service account receipts had diminished, but gold exports were considerably increased. The net result in this third period was that about three-quarters of the total receipts from merchandise, gold, and services were required for interest and dividend payments.

Because of the close uniformity shown above in the changing balance of payments for the three countries (allowing for differences in size), it would be difficult to support the position that Canada's peculiar external relationships required in any important way a different monetary policy from that of Australia and New Zealand. As will be shown below, Canada's maintenance of debt service greatly reduced her foreign banking funds; in Australia and New Zealand these were greatly increased. Thus, while the balance of payment position of the three countries was comparable, there was pressure on banking reserves in Canada and buoyancy in Australia and New Zealand.

One item in the accounts for Canada should be given further attention. That is the service account receipts made up largely of foreign tourist expenditures. It is frequently asserted that Canada must give unusually serious consideration to the relation of her external monetary policy to that of the United States. The reason for this consideration is frequently asserted to be the fact that Canada, purchasing a larger amount from the United States than it sells to her, and with a substantial amount of its foreign debt service payable in the United States, must not allow the value of the Canadian dollar to depart too widely from parity with the United States dollar. But over and above the unfavourable trade balance there are the tourist expenditures of

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the United States in Canada. In every period considered, the service account receipts of Canada (largely tourist expenditures) exceed in importance the export balance of Canada's trade. Nor is the variability in these receipts any greater than the variability in the merchandise balance. It is true, of course, that control over these service receipts is not exercised by Canada, whereas she may control the merchandise trade to a very considerable degree. This, of course, serves only to support the position that Canadian trade with the United States did not require, *per se*, the monetary policy that has been followed.

World tourist expenditures have recently been reviewed in very considerable detail in the "Balance of Payments 1935" of the League of Nations (pp. 39-43). Table 23, which has been prepared from these data, supplies the estimated amount of Canada's total receipts from all *foreign tourists* and the expenditures in Canada of *United States tourists*.

TABLE 23—CANADA'S TOTAL RECEIPTS FROM ALL FOREIGN TOURISTS AND RECEIPTS FROM UNITED STATES TOURISTS, 1929, 1933, 1934, AND 1935
(In millions of old U. S. gold dollars)

Year	Canada's Receipts from All Foreign Tourists	Canada's Receipts from U. S. Tourists
1929.....	307.1	289.0
1933.....	85.7	81.4
1934.....	78.3	71.6
1935.....	119.5	113.4

Source: See textual reference.

Offsetting the tourist receipts from the United States, there are the expenditures of Canadian tourists in the United States. These expenditures in 1935 were 37.2 million dollars, or about one-third of the expenditure of United States tourists in Canada. This meant a *net* balance to Canada of slightly more than 75 million dollars. In 1929 this net balance was 195 million dollars. This amount of net tourist receipts from the United States may be compared with the net balance of 53 million dollars in merchandise account *due* to the United States in the fiscal year ended March 31, 1936. Thus the net trade balance and the net tourist balance provided Canada with a net credit of 22 million dollars. This balance in turn may be compared with the total amount of external Dominion debt payable in New York on March 31, 1935. The debt was approximately 385 million dollars; the debt service at an interest rate of 4½ per cent required about \$17,500,000. Service on the debt of provinces, municipalities, and individuals payable in the United States would show a much larger annual service requirement payable in United States funds. The total amount payable abroad in 1935 amounted to approximately 130 million dollars. But in addition to the receipts from tourists, Canada has a large credit for her gold production, which is normally sold in the United States. From 1932 to 1935 gold exports averaged 62 million dollars annually.

In conclusion, it may be pointed out that the comparisons with Australia and New Zealand fail to reveal any substantial difference between Canada's

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external accounts and those of her two sister dominions. Moreover, the balance of payment accounts of Canada and the United States fail to give evidence of the overwhelming importance to Canada of a monetary policy articulated at all costs with that of the United States.

EXCHANGE RATES AND GOLD AND FOREIGN CURRENCY ASSETS OF BANKS FOR CANADA, AUSTRALIA, AND NEW ZEALAND

When a country decides upon a depreciation of its currency, the implementation of that policy may require the purchase of foreign currencies, offset by the sale of its own domestic currency. An outstanding example is that of New Zealand, which by 1934 acquired, in addition to earlier holdings, no less than *44 million pounds in sterling assets and sterling bank deposits* from its sales of New Zealand pounds at the depreciated rate decided upon.

Table 24 gives in brief form the total gold reserves and foreign assets of banks in Canada, New Zealand, and Australia. As a matter of secondary interest, indexes of the wholesale price levels in these three countries are also given. The data are for 1928, 1930, and 1933 or 1934. It will be seen that from 1928 to 1933 total gold and foreign banking reserves of Canada were reduced by more than one-half.

TABLE 24—TOTAL RESERVES IN GOLD AND (NET) FOREIGN ASSETS OF BANKS IN CANADA, NEW ZEALAND AND AUSTRALIA, 1928, 1930, AND 1933 OR 1934

(In millions of dollars; New Zealand and Australian pounds converted at \$5.00.)

Year	TOTAL RESERVES IN GOLD AND FOREIGN ASSETS			WHOLESALE PRICE INDEXES		
	Canada	New Zealand	Australia	Canada	New Zealand	Australia
1928.....	309	100	194	100	100	100
1930.....	226	....	93	92	97	89
1933.....	139	....	....	70	88	79
1934.....	....	221	171	....	....	....

Source: Table N of the Appendix.

It was the willingness to exhaust gold reserves and, of course, to sell abroad all domestic production of gold, as well as to exhaust other foreign assets, that assisted Canada in maintaining the high value of her dollar. New Zealand and Australia in contrast *purchased* foreign assets in order to depreciate their currencies. As a result, in order to maintain its competitive position, Canada suffered the effects of sharply reduced wholesale prices; to the foreign buyer, Canadian prices had to be cheap to compensate for the dear Canadian dollar. New Zealand and Australia, on the other hand, suffered much smaller declines in their wholesale price level, inasmuch as the attraction to foreign buyers was the generous supply of Australian and New Zealand exchange available at low rates. The result for these two dominions, therefore, was the opposite of that for Canada, in that they, with depreciation of the currency, permitted the maintenance of more stable price levels.

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COMPARISON OF EFFECTS OF NATIONAL MONETARY POLICY OF CANADA UPON THE PRAIRIE PROVINCES WITH THAT OF AUSTRALIA UPON WESTERN AUSTRALIA, SOUTH AUSTRALIA, AND TASMANIA

We have attempted to measure the annual average costs (as based upon the exported portion of total grain production) of the failure of Canada to adopt an exchange policy that would have kept the prairie provinces in effective export competition with Australia and Argentina. To the province of Manitoba the cost so defined has been placed at an annual average of \$6,000,000 for the six-year period ending with 1936. The annual cost to the three prairie provinces in the same period has been placed at \$47,000,000.

In their inquiry into the position of South Australia, Western Australia, and Tasmania, the Commonwealth Grants Commission accepted the Australian exchange policy as a calculable *benefit* to these states. The benefit of the exchange policy to Western Australia was placed at over \$2,000,000.00 (taking the pound at \$5.00). The Commission stated that the benefit of the exchange rate "cannot be much less for South Australia," but that "the exchange benefit will be small in Tasmania" (p. 94). This is because Tasmania sells largely in Australia proper rather than in foreign markets.

The report of the Commission also estimated that the excess tariff costs for Western Australia were about \$6,000,000. For South Australia a tentative figure of \$5,500,000 was given, and for Tasmania a tentative figure of about \$2,500,000. The Commission observed that although the federal tariff policy had been detrimental (by the amounts given) to the three states engaged in primary production and advantageous to the states engaged in secondary production, nevertheless national currency policy represented an *offset* to these tariff costs for primary producing states. We wish to observe that for Canada, disability costs for the prairie provinces consist of the *sum* of tariff costs *and* exchange costs in contrast to the *difference* between the latter and the former, as for Australia.

APPENDIX

APPENDIX

A CONTRAST BETWEEN THE FOREIGN TRADE OF THE UNITED KINGDOM AND CANADIAN TRADE DURING THE DEPRESSION

In reviewing the relation of Canadian economy to monetary policy and foreign trade, one point of departure would be to consider a similar relationship for Great Britain. An approach from this point might seem one of indirection, but would serve to illustrate the very striking contrast between the United Kingdom and Canada. It is, of course, readily apparent that the two are direct opposites with respect to foreign trade. This may be illustrated in a simple way by the statement that an important part of Canada's exports is an important part of Britain's imports.

The contrast may be made clearer by an example taken from the foreign trade of the United Kingdom. An analysis of certain important selected food-stuffs and raw material items imported by the United Kingdom is given in Table A. This reveals that whereas in 1932 the United Kingdom purchased a slightly larger quantum of these commodities than in 1929, 1932 imports cost her 1,364 million dollars as compared to 3,028 million dollars for the slightly smaller quantum of the same commodities purchased in 1929. (Values are in U.S. dollars.) The importance to the United Kingdom of this tremendous saving in the cost of food and raw materials in the worst year of the depression can hardly be overemphasized. It has been estimated that this saving in the imports of food, drink, and raw materials very substantially exceeded the decline, during the same period, in the total pay-roll of manufacturing in the United Kingdom.¹

Table A (a summary of Table C), reveals not only the quantum and value of a selected list of imports into the United Kingdom in 1929 and 1932, but also various indexes. The index of quantum of imports increased from 100.0 to 100.6 in the three-year period. The index of total value of these imports

1. On the gains in trade to the United Kingdom Pigou and Clark have the following to say: "In 1933 a bale of exports bought nearly 23% more imports than it did four years before." From 1929 to 1933 (1930 as 100) they point out that Britain's import prices declined from 113.2 to 71.3, exports from 104.8 to 81.9. *Agricultural* imports, as we have shown, declined much more in price than all imports. See A. C. Pigou and Colin Clark, "The Economic Position of Great Britain" (Memorandum No. 60, Royal Economic Society, London, June, 1936), pp. 27-28. From 1929 to 1932 Britain's overseas investment income declined from 250 million pounds to 150 million pounds—a decline of 40 per cent, which may be compared with the 55 per cent decline in the price of the imports which we have considered. See Pigou and Clark, *op. cit.*, p. 26.

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declined from 100 to 45.0. Not taking into consideration the very slight increase in quantum, the price per average unit of import also declined from 100 to 45.0. If allowance is made for the very slightly increased quantum of imports, the price per unit decreased from 100 to 44.7. Table A also includes indexes of quantum, unit price, and total value of all Canadian exports. These are given to facilitate comparison of the record of Canadian exports with the data given for imports of the United Kingdom.

TABLE A—QUANTITY AND VALUE OF CERTAIN FOOD AND RAW MATERIAL IMPORTS INTO THE UNITED KINGDOM;
INDEXES OF THE QUANTUM, UNIT PRICE, AND TOTAL VALUE OF CANADIAN EXPORTS IN 1929 AND 1932

Commodity Group	Quantity (in millions of pounds)		Value (in millions of dollars)	
	1929	1932	1929	1932
Foodstuff items: (animal, dairy, fish, fruits, tea, sugar, tobacco, cottonseed, wheat, barley, and corn).....	33,889	35,065	1,890	946
Cotton, wool, leather, lumber, pulp and cardboard, zinc, copper, and lead.....	12,763	11,879	1,138	418
Total.....	46,652	46,944	3,028	1,364
Indexes of totals.....	100.0	100.6	100.0	45.0
Indexes of total Canadian exports:				
Index of quantum.....	100.0	80.4		
Index of unit price.....			100.0	57.7
Index of total value.....			100.0	42.3

Source: Table C, Appendix.

The data given in Table B (which is also based upon Table C) provide additional detail on the total trade of the United Kingdom. Of particular interest in this table are the figures covering imports by the United Kingdom of wheat (including flour), barley, and corn. These products (other than corn, which is not a Canadian export) are of outstanding importance in the export trade of Canada with the United Kingdom. The table indicates that the quantum of imports of these grains into the United Kingdom increased slightly—about 5 per cent—but that the total value declined by no less than 236 million dollars, or from 413 to 177 million dollars. There was no item of imports to the United Kingdom on which the cost for a like quantity decreased as much as for wheat, barley, and corn; and in 1932 Canada supplied roughly one-half of these imports, even when corn is included in the total. The individual commodities included in the preceding tables are listed in detail in Table C.

In the opinion of Geoffrey Crowther, assistant editor of "The Economist" (London), no factor contributed more to economic recovery in the United Kingdom than the tremendous saving in the cost of her imported foodstuffs and raw materials. Inasmuch as about 75 per cent of Britain's food supply is

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imported, the savings released a large volume of purchasing power, which aided in the maintenance of output of her own *domestic* industries. Purchasing power not required for food and drink could be used to "Buy British" for housing; in the form of taxes to provide for highways, and more recently for rearmament; and to make easier the problem of carrying the unemployed in the adversely affected export industries.

But in these changes which so greatly favoured Britain, which in fact virtually assured speedy emergence from the depression, we observe the very source of serious disturbance to Canadian economy. Canada exports from a quarter to a third of her primary products. This great dependence upon export trade serves to explain why the Canadian economy is vitally dependent for its prosperity upon the maintenance of profitable export markets. In contrast, important as are her exports, the United States has rarely exported more than 10 per cent of her total production of movable goods, and in recent years only about 7 per cent. The United States, of course, has certain important exports which greatly exceed this 10 per cent average, notably cotton, tobacco, and lard, which in normal times are exported in amounts varying from one-third to one-half.

TABLE B—QUANTITY AND VALUE OF CERTAIN FOOD AND RAW MATERIAL IMPORTS INTO THE
UNITED KINGDOM, 1929 AND 1932

Class of Imports	Quantity (in millions of pounds)		Value (in millions of dollars)	
	1929	1932	1929	1932
Animal, dairy, and fish products ^a	5,223	4,763	955	496
Wheat (including flour), barley, and corn ^b	19,882	20,931	413	177
Fruits, tea, sugar, tobacco, and cottonseed	8,784	9,371	522	273
Total foodstuffs	33,889	35,065	1,890	946
Cotton and wool	2,354	2,173	659	220
Leather	90	63	70	26
Lumber, pulp and cardboard ^c	9,024	8,543	296	138
Zinc, copper, and lead ^d	1,295	1,100	113	34
Total colonial products other than foodstuffs	12,763	11,879	1,138	418
Total of all colonial products listed	46,652	46,944	3,028	1,364
All other imports			2,913	1,101
Total imports			5,941	2,465

Source: Table C, Appendix.

^a Live animals at an average weight of 1,000 pounds.

^b Bushel equivalent to 60 pounds and barrel of flour equivalent to 4½ bushels of wheat.

^c 1,000 board feet of lumber taken as 2,000 pounds.

^d 2,000 pounds to the ton.

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TABLE C—IMPORTS INTO THE UNITED KINGDOM: COMPARISON OF QUANTUM AND VALUE IN 1929 AND 1932
FOR SELECTED FOOD ITEMS AND RAW MATERIALS

Import Item	Quantity (in thousands of pounds)		Value (in thousands of dollars)	
	1929	1932	1929	1932
Live cattle ^a	750,262	642,630	63,336	31,359
Beef	1,307,000	1,272,977	152,361	79,914
Mutton and lamb	630,662	779,996	92,215	55,195
Bacon	927,150	1,277,464	212,872	105,988
Hams	115,224	89,976	26,636	9,570
Lard	293,548	271,036	37,993	16,829
Butter	716,494	946,300	266,229	145,437
Cheese	335,332	336,733	67,705	31,905
Canned fish	146,863	146,114	35,615	19,551
Total	5,222,540	4,763,226	954,962	495,748
Wheat	208,632	197,171	281,208	113,862
Barley	27,968	23,643	26,873	10,273
Corn	69,817	105,641	74,371	40,231
Wheat, meal, and flour ^b	24,953	22,402	30,322	12,377
Total	331,370	348,857	413,274	176,743
Apples	644,845	909,176	34,367	27,816
Oranges	1,037,564	1,047,740	47,720	26,909
Fruit (preserved)	315,191	371,385	33,713	22,605
Fruit	559,168	567,300	182,777	89,121
Sugar (refined)	4,585,346	5,274,756	110,626	63,176
Sugar (refined) and candy	124,873	62,509	3,595	907
Tobacco	240,026	175,204	83,643	33,432
Cottonseed	1,276,816	962,559	25,683	9,118
Total	8,783,829	9,370,629	522,124	273,084
Cotton (raw)	1,539,778	1,252,177	368,131	106,076
Wool (raw)	813,873	920,864	290,355	114,173
Total	2,353,651	2,173,041	658,986	220,249
Leather (undressed)	72,449	50,085	36,201	12,769
Leather (dressed)	17,520	12,639	33,677	12,776
Total	89,969	62,724	69,878	25,545
Wood: sawn, hard ^c	382,454	312,380	39,357	16,469
Wood: sawn, soft ^c	3,134,449	2,532,163	115,688	45,756
Wood pulp ^d	3,276,000	3,690,000	53,044	29,522
Paper and cardboard	2,231,453	2,008,621	87,462	45,891
Total	9,024,356	8,543,164	295,551	137,638
Zinc ^d	284,860	175,392	17,795	4,409
Copper	344,315	328,992	61,206	18,174
Lead	665,912	595,665	33,693	11,453
Total	1,295,087	1,100,049	112,694	34,036

Source: Foreign Commerce Year Book, 1933 (U.S. Department of Commerce, 1934), p. 143.

^a Taken as 1,000 pounds average weight.

^b Taken as 4½ bushels of wheat to a barrel.

^c Reported in 1,000 board feet, which is taken as 2,000 pounds.

^d Reported in tons taken as 2,000 pounds.

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TABLE D—WHEAT EXPORTS FOR CANADA, AUSTRALIA, AND ARGENTINA, COMPARED WITH WHEAT IMPORTS OF THE UNITED KINGDOM: QUANTITY, VALUE, UNIT PRICE, AND INDEX OF PRICE, 1926 TO 1936

WHEAT EXPORTS OF CANADA

Year (Ended March 31 Subsequent to Year Given)	Exports (in bushels)	Value of Exports (in dollars)	Price Received per Bushel (in dollars)	Index of Unit Price
1926.....	248,497,000	353,095,000	1.4209	100.00
1927.....	266,902,000	352,117,000	1.3192	92.84
1928.....	370,460,000	428,524,000	1.1567	81.41
1929.....	177,006,000	215,753,000	1.2189	85.78
1930.....	217,243,000	177,420,000	.8167	57.48
1931.....	191,316,000	115,739,000	.6050	42.58
1932.....	239,373,000	130,546,000	.5454	38.38
1933.....	175,534,000	118,969,000	.6778	47.70
1934.....	165,702,000	132,442,000	.7993	56.25
1935.....	179,124,000	148,577,000	.8295	58.38
1936.....	227,997,000	223,461,000	.9801	68.98

Source: Trade of Canada.

WHEAT EXPORTS OF AUSTRALIA

Year (Ended June 30 Subsequent to Year Given)	Exports (in bushels)	Value of Exports (in Australian pounds)	Price Received per Bushel (in Australian pounds)	Index of Unit Price*
1926.....	73,925,000	20,785,000	.28116	100.00
1927.....	53,042,000	14,630,000	.27581	98.09
1928.....	81,896,000	20,336,000	.24831	88.32
1929.....	40,391,000	10,037,000	.24850	88.38
1930.....	119,223,000	14,744,000	.12367	43.99
1931.....	127,401,000	19,220,000	.15086	53.66
1932.....	119,556,000	17,805,000	.14892	52.97
1933.....	61,599,000	8,874,000	.14406	51.23
1934.....	75,960,000	11,612,000	.15287	54.37
1935.....	76,993,000	14,019,000	.18208	67.46

*Confirmation of Index: "Weighted Average of Shippers' Limits for Growers' Bagged Lots" at Sydney, Melbourne, Adelaide.

Year	Price per cwt. (in shillings and pence— Australian currency)	Index
1926.....	5.7	100.00
1927.....	5.6	98.5
1928.....	4.10	86.6
1929.....	5.0	89.6
1930.....	2.5¾	44.4
1931.....	3.0¼	54.1
1932.....	2.11¾	53.4
1933.....	2.9½	50.0

Source: Australian Official Yearbook.

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TABLE D—(Continued)
WHEAT EXPORTS OF ARGENTINA

Calendar Year	Exports (in bushels)	Value of Exports (in pesos)	Price Received per Bushel (in pesos)	Index of Price
1926.....	74,766,000	117,642,000	1.5741	100.00
1927.....	155,262,000	200,194,000	1.2894	81.91
1928.....	194,590,000	250,627,000	1.2879	81.82
1929.....	243,001,000	277,972,000	1.1439	72.67
1930.....	81,329,000			
1931.....	133,696,000	91,800,000	.6866	43.62
1932.....	126,465,000	226,100,000	1.7878	113.58
1933.....	144,351,000	216,400,000	1.4991	95.24
1934.....	176,132,000	295,300,000	1.6766	106.51
1935.....	141,816,000	273,800,000	1.9307	122.65

Source: International Trade Statistics, League of Nations.

WHEAT IMPORTS OF UNITED KINGDOM

Calendar Year	Imports (in cwts.)	Value of Imports (in pounds sterling)	Price Paid per cwt. (in pounds sterling)	Index of Price
1926.....	96,256,000	62,835,000	.65279	100.00
1927.....	110,436,000	68,060,000	.61628	94.41
1928.....	103,577,000	57,633,000	.55643	85.23
1929.....	111,767,000	57,784,000	.51700	79.20
1930.....	104,775,000	43,064,000	.41101	62.96
1931.....	119,419,000	30,376,000	.25436	38.97
1932.....	105,637,000	32,474,000	.30741	47.09
1933.....	112,375,000	31,005,000	.27590	42.26
1934.....	102,625,000	27,612,000	.26906	41.22
1935.....	101,220,000	30,500,000	.30132	46.16

Source: Statistical Abstract of the United Kingdom.

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TABLE E—PRINCIPAL EXPORTS OF AUSTRALIA, 1931-32 TO 1935-36
(In millions of Australian pounds)

Period	Wheat ^a	Wool	Butter	Meats
1931-32.....	23.1	32.1	10.3	6.9
1932-33.....	22.0	36.4	8.9	6.0
1933-34.....	12.1	57.1	8.2	7.1
1934-35.....	16.2	39.3	9.6	8.8
1935-36.....	18.5	52.3	9.0	8.8

Source: Official Year Book of Australia.

^a Including flour.

TABLE F—COMPARISON OF NEW ZEALAND BUTTER EXPORTS WITH UNITED KINGDOM BUTTER IMPORTS:
VOLUME, VALUE, AVERAGE PRICE, AND INDEX OF PRICE, 1926 TO 1936

NEW ZEALAND BUTTER EXPORTS

Year Ended June 30	Volume (in thousands of cwts.)	Value (in thousands of pounds New Zealand)	Average Price (per cwt.)	Index of Price (1929=100)
1926.....	1091	8958	8.2108	101.0
1927.....	1361	9762	7.1727	88.2
1928.....	1468	11316	7.7084	94.8
1929.....	1567	12745	8.1333	100.0
1930.....	1818	13023	7.1633	88.1
1931.....	1808	9918	5.4856	67.6
1932.....	1969	10128	5.1437	63.3
1933.....	2430	10898	4.4848	55.2
1934.....	2826	11830	4.1861	51.5
1935.....	2576	10625	4.1246	50.7
1936.....	2787	14790	5.3067	65.3

Source: New Zealand Official Year Book.

UNITED KINGDOM BUTTER IMPORTS

Calendar Year	Volume (in thousands of cwts.)	Value (in thousands of pounds sterling)	Average Price (per cwt.)	Index of Price (1929=100)
1926.....	5819	48283	8.2974	97.0
1927.....	5819	48205	8.2841	96.9
1928.....	6113	52045	8.5138	99.6
1929.....	6397	54706	8.5518	100.0
1930.....	6822	46870	6.8704	80.3
1931.....	8060	46298	5.7442	67.2
1932.....	8364	41055	4.9085	57.4
1933.....	8832	34341	3.8882	45.5
1934.....	9695	33272	3.4319	40.1
1935.....	9608	39328	4.0933	47.9
1936.....	9752	44424	4.5554	53.3

Source: Statistical Abstracts for the United Kingdom, 1926-1934; International Trade Statistics, League of Nations, for 1935.

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NOTE TO TABLES G, H, AND I

The following summary of Tables G, H, and I (see pages 42-44) provides a comparison of selected export items of the prairie provinces—wheat and wheat flour, barley, rye, and oats—with export items of the non-prairie provinces—nickel, zinc, lead, copper, wood pulp, and newsprint. It indicates the close equality in value of these two groups of export commodities, but shows that the major export market of the prairie provinces is the United Kingdom, that of the non-prairie provinces the United States.

TOTAL AND AVERAGE EXPORTS OF WHEAT AND WHEAT FLOUR, BARLEY, RYE, AND OATS FOR THE PRAIRIE PROVINCES, 1930 TO 1936

<i>Period</i>	<i>Total Canadian Exports</i>	<i>Exports of Prairie Provinces</i>	<i>Exports of Prairie Provinces to:</i>		
			<i>U.K.</i>	<i>U.S.</i>	<i>All Other Countries</i>
1930-36.....	1304.3	1206.8	725.7	84.1	397.0
Annual average	186.3	172.4	103.7	12.0	56.7

TOTAL AND AVERAGE EXPORTS OF NICKEL, ZINC, LEAD, COPPER, WOOD PULP AND NEWSPRINT PAPER FOR THE NON-PRAIRIE PROVINCES, 1930 TO 1936

<i>Period</i>	<i>Total Canadian Exports</i>	<i>Exports of Non-Prairie Provinces</i>	<i>Exports of Non-Prairie Provinces to:</i>		
			<i>U.K.</i>	<i>U.S.</i>	<i>All Other Countries</i>
1930-36.....	1265.5	1240.9	217.5	817.1	207.3
Annual average.....	180.8	177.3	31.1	116.7	29.6

Tables G, H, and I, which follow, give details covering each export item included in the above summary. The export data for Canada are from the Canada Year Book; the remaining data are calculated by the method explained on page 10.

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TABLE G—TOTAL CANADIAN EXPORTS OF FOUR GRAINS, SHARE OF PRAIRIE PROVINCES IN THESE EXPORTS, AND DESTINATION OF THEIR SHARE, 1930 TO 1936
(In millions of dollars)

Export Item	Value of Total Exports of Canada	Value of Share of Exports of Prairie Provinces	Value of Exports of Prairie Provinces to:		
			U.K.	U.S.	All Other Countries
WHEAT AND FLOUR:					
1930.....	210.3	198.5	113.4	8.7	76.4
1931.....	134.6	126.1	68.0	10.0	48.1
1932.....	147.5	140.9	83.5	....	57.4
1933.....	138.7	129.4	79.0	.3	50.1
1934.....	150.8	144.2	94.5	11.0	38.7
1935.....	198.5	186.0	113.5	16.7	55.8
1936.....	245.1	226.7	151.7	20.4	54.6
Total.....	1,225.5	1,151.8	703.6	67.1	381.1
BARLEY:					
1930.....	1.2	1.0	.6	.2	.2
1931.....	10.0	7.5	2.8	....	4.7
1932.....	4.3	3.4	1.9	....	1.5
1933.....	.7	.5	.4	....	.1
1934.....	8.3	5.8	1.3	4.2	.3
1935.....	3.6	2.7	1.7	.9	.1
1936.....	14.9	10.9	2.2	8.6	.1
Total.....	43.0	31.8	10.9	13.9	7.0
RYE:					
1930.....	.5	.5	.4	....	.1
1931.....	2.0	1.6	.7	....	.9
1932.....	4.0	3.4	.4	....	3.0
1933.....	1.5	1.1	.1	1.0	....
1934.....	.5	.4	.1	.3	....
1935.....	.3	.3	.2	....	.1
1936.....	2.6	1.9	.7	.9	.3
Total.....	11.4	9.2	2.6	2.2	4.4
OATS:					
1930.....	1.1	.7	.2	.1	.4
1931.....	4.7	2.6	1.1	....	1.5
1932.....	4.3	2.7	1.6	....	1.1
1933.....	1.7	1.0	.7	....	.3
1934.....	4.9	2.6	1.6	.7	.3
1935.....	4.5	2.8	2.2	.1	.5
1936.....	3.2	1.6	1.2	....	.4
Total.....	24.4	14.0	8.6	.9	4.5
ALL GRAINS:					
1930.....	213.1	200.7	114.6	9.0	77.1
1931.....	151.3	137.8	72.6	10.	55.2
1932.....	160.1	150.4	87.4	....	63.0
1933.....	142.6	132.0	80.2	1.3	50.5
1934.....	164.5	153.0	97.5	16.2	39.3
1935.....	206.9	191.8	117.6	17.7	56.5
1936.....	265.8	241.1	155.8	29.9	55.4
Total.....	1,304.3	1,206.8	725.7	84.1	397.0

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**TABLE H—TOTAL CANADIAN EXPORTS OF FOUR NON-FERROUS METALS, SHARE OF NON-PRAIRIE PROVINCES
IN THESE EXPORTS, AND DESTINATION OF THEIR SHARE, 1930 TO 1936**
(In millions of dollars)

Export Item	Value of Total Exports of Canada	Value of Share of Exports of Non- Prairie Provinces	Value of Exports of Non-Prairie Provinces to:		
			U.K.	U.S.	All Other Countries
NICKEL:					
1930	18.2	18.2	5.9	9.7	2.6
1931	12.1	12.1	3.6	5.9	2.6
1932	7.5	7.5	1.2	3.7	2.6
1933	28.2	28.2	8.5	12.7	7.0
1934	28.4	28.4	9.7	12.4	6.3
1935	41.6	41.6	16.4	17.4	7.8
1936	45.9	45.9	13.2	23.7	9.0
Total	181.9	181.9	58.5	85.5	37.9
ZINC:					
1930	6.0	5.9	3.3	...	2.6
1931	5.3	4.5	2.7	...	1.8
1932	3.5	2.7	1.5	...	1.2
1933	6.3	4.8	3.3	...	1.5
1934	7.5	6.3	4.5	...	1.8
1935	8.4	6.8	5.4	...	1.4
1936	9.9	8.0	5.5	0.2	2.3
Total	46.9	39.0	26.2	0.2	12.6
LEAD:					
1930	7.0	7.0	2.9	1.1	3.0
1931	4.4	4.4	1.9	.2	3.3
1932	3.3	3.3	1.8	.1	1.4
1933	5.9	5.9	3.3	.2	2.4
1934	5.5	5.5	3.2	.1	2.2
1935	8.3	8.3	5.2	...	3.1
1936	13.8	13.8	8.0	.1	5.7
Total	48.2	48.2	26.3	1.8	21.1
COPPER:					
1930	7.3	7.2	.2	6.8	.2
1931	17.2	14.5	2.2	2.2	10.1
1932	11.0	8.7	4.9	2.2	1.6
1933	17.4	15.0	9.2	.9	4.9
1934	20.2	18.1	13.0	.9	4.2
1935	25.7	22.7	14.3	1.2	7.2
1936	38.8	34.7	22.6	2.5	9.6
Total	137.6	120.9	66.4	16.7	37.8
ALL 4 METALS:					
1930	38.5	38.3	12.3	17.6	8.4
1931	39.0	35.5	10.4	8.3	17.8
1932	25.3	22.2	9.4	6.0	6.8
1933	57.8	53.9	24.3	13.8	15.8
1934	61.6	58.3	30.4	13.4	14.5
1935	84.0	79.4	41.3	18.6	19.5
1936	108.4	102.4	49.3	26.5	26.6
Total	414.6	390.0	177.4	104.2	109.4

THE EFFECTS OF FEDERAL MONETARY POLICY

TABLE I—TOTAL CANADIAN EXPORTS OF NEWSPRINT PAPER AND WOOD PULP; SHARE IN THESE EXPORTS OF NON-PRAIRIE PROVINCES; AND DESTINATION OF THEIR SHARE OF EXPORTS, 1930 TO 1936
(In millions of dollars)

Export Item	Value of Total Exports of Canada	Value of Exports of Non- Prairie Provinces	Value of Exports of Non-Prairie Provinces to:		
			U.K.	U.S.	All Other Countries
NEWSPRINT PAPER: ^a					
1930	127.4	127.4	7.0	110.8	9.6
1931	103.0	103.0	5.4	89.4	8.2
1932	74.1	74.1	3.0	64.5	6.6
1933	73.2	73.2	4.3	61.2	7.7
1934	82.1	82.1	3.4	68.1	11.6
1935	90.8	90.8	3.4	73.0	14.4
1936	110.2	110.2	3.7	89.2	17.3
Total	660.8	660.8	29.2	556.2	75.4
WOOD PULP:					
1930	33.8	33.8	1.2	29.0	3.6
1931	26.2	26.2	1.4	21.4	3.4
1932	17.8	17.8	1.2	14.0	2.6
1933	25.1	25.1	1.3	20.2	3.6
1934	25.9	25.9	1.7	20.4	3.8
1935	28.1	28.1	2.2	23.1	2.8
1936	33.2	33.2	1.9	28.6	2.7
Total	190.1	190.1	10.9	156.7	22.5
NEWSPRINT AND WOOD PULP:					
1930	161.2	161.2	8.2	139.8	13.2
1931	129.2	129.2	6.8	110.8	11.6
1932	91.9	91.9	4.2	78.5	9.2
1933	98.3	98.3	5.6	81.4	11.3
1934	108.0	108.0	4.1	88.5	15.4
1935	118.9	118.9	5.6	96.1	17.2
1936	143.4	143.4	5.6	117.8	20.0
Total	850.9	850.9	40.1	712.9	97.9
FOUR NON-FERROUS METALS, WOOD PULP, AND NEWSPRINT:					
1930	199.7	199.5	20.5	157.4	21.6
1931	168.2	164.7	17.2	119.1	29.4
1932	117.2	114.1	13.6	84.5	16.0
1933	156.1	152.2	29.9	95.2	27.1
1934	169.6	166.3	34.5	101.9	29.9
1935	202.9	198.3	46.9	114.7	36.7
1936	251.8	245.8	54.9	144.3	46.6
Total	1,265.5	1,240.9	217.5	817.1	207.3

^a Very small quantity produced in Manitoba, but producing mill was closed during some years.

THE EFFECTS OF FEDERAL MONETARY POLICY

TABLE J—AGGREGATE BALANCE OF PAYMENTS AND ANNUAL AVERAGE FOR CANADA, 1927 TO 1935
(In millions of old gold dollars)

Account	FIRST PERIOD		SECOND PERIOD		THIRD PERIOD	
	Total for 1927-28	Annual Average	Total for 1929-31	Annual Average	Total for 1932-35	Annual Average
RECEIPTS:						
Merchandise export balance.....	186.1	93			255.3	64
Service account receipts.....	407.6	204	671.4	224	287.1	72
Gold exports.....	95.9	48	93.4	31	247.4	62
Capital imports.....			333.1	111	12.9	3
Total receipts.....	689.6	345	1,097.9	366	802.7	201
DISBURSEMENTS:						
Merchandise import balance.....			377.4	126		
Interest and dividends paid.....	373.7	187	687.1	229	575.9	144
Capital repayments.....	9.5	5				
Balance due to errors and omissions ..	306.4	153	33.4	11	226.8	57
Total disbursements.....	689.6	345	1,097.9	366	802.7	201

Source: Balance of Payments, League of Nations (Summary Statement).

TABLE K—AGGREGATE BALANCE OF PAYMENTS AND ANNUAL AVERAGE FOR AUSTRALIA, 1928 TO 1934
(In millions of old gold dollars. First period figures not available.)

Account	SECOND PERIOD		THIRD PERIOD	
	Total for 1928-29 and 1929-30	Annual Average	Total for 1930-31 to 1933-34	Annual Average
RECEIPTS:				
Merchandise export balance.....			335.8	84
Service account receipts.....	21.8	11	32.8	8
Gold exports.....	142.2	71	170.4	43
Capital imports.....	285.8	143		
Total receipts.....	449.8	225	539.0	135
DISBURSEMENTS:				
Merchandise import balance.....	263.3	132		
Interest and dividends paid.....	336.6	168	469.8	117
Capital repayments			171.1	43
Balance due to errors and omissions	—150.1	—75	—101.9	—25
Total disbursements.....	449.8	225	539.0	135

Source: Balance of Payments, League of Nations (Summary Statement).

THE EFFECTS OF FEDERAL MONETARY POLICY

TABLE L—AGGREGATE BALANCE OF PAYMENTS AND ANNUAL AVERAGE FOR NEW ZEALAND, 1928 TO 1935
(In millions of old gold dollars)

Account	FIRST PERIOD		SECOND PERIOD		THIRD PERIOD	
	Fiscal Year 1928-29	Annual Average	Total for 1929-30 and 1930-31	Annual Average	Total for 1931-32 to 1934-35	Annual Average
RECEIPTS:						
Merchandise ex- port balance ..	48.3	48			133.8	33
Service account receipts	-1.9	-2	-2.3	-1	-8.9	-2
Gold exports....	5.4	6	6.6	3	27.8	7
Capital imports	31.7	32	57.9	29		
Total receipts	83.5	84	62.2	31	152.7	38
DISBURSEMENTS:						
Merchandise im- port balance ..			20.6	10		
Interest and divi- dends paid....	42.3	42	87.1	44	110.9	28
Capital repay- ments.....					8.2	2
Balance due to errors and omissions.....	41.2	42	-45.5	-23	33.6	8
Total disburse- ments.....	83.5	84	62.2	31	152.7	38

Source: Balance of Payments, League of Nations (Summary Statement).

TABLE M—COMPARATIVE BALANCE OF PAYMENTS FOR CANADA, AUSTRALIA, AND NEW ZEALAND,
1928 AND 1934 OR 1935
(In millions of old gold dollars)

Account	Canada		Australia		New Zealand	
	1928	1935	1928-29	1933-34	1928	1934-35
RECEIPTS:						
Merchandise export balance..	78.6	82.6		88.9	48.3	24.8
Service account receipts	231.2	81.5	7.2	0.4	-1.9	-2.6
Gold exports.....	65.3	65.4	12.9	20.3	5.4	9.8
Capital imports			115.9		31.7	51.6
Total receipts.....	375.1	229.5	136.0	109.6	83.5	83.6
DISBURSEMENTS:						
Merchandise import balance..			56.2			
Interest and dividends paid..	187.9	129.3	166.1	91.0	42.3	23.1
Capital repayments.....	45.3	9.7		78.9		
Balance due to errors and omissions.....	141.9	90.5	-86.3	-60.3	41.2	60.5
Total disbursements.....	375.1	229.5	136.0	109.6	83.5	83.6

Source: Balance of Payments, League of Nations (Summary Statement).

THE EFFECTS OF FEDERAL MONETARY POLICY

TABLE N—NET FOREIGN FUNDS OF CANADIAN, NEW ZEALAND, AND AUSTRALIAN BANKS,
1926 TO 1934

(In millions of dollars. New Zealand and Australian pounds converted at \$5.00.)

CANADA

Year	Net Funds Held Abroad ^a			Total Gold Reserves ^b	Total Net Funds Held Abroad and Gold Reserves	
	Net Balance	Foreign Securities	Total		Amount	Index
1926.....	278	59	337	131	468	100
1927.....	233	68	301	131	432	92
1928.....	170	46	216	93	309	66
1929.....	90	45	135	63	198	42
1930.....	66	64	130	96	226	48
1931.....	55	72	137	67	204	44
1932.....	11	72	83	73	156	33
1933 ^c	—5	72	67	72	139	30
1934.....				74		

NEW ZEALAND^d

Year	Net Overseas Funds of Banks	Gold Reserves	Total Gold Reserves and Overseas Funds	
			Amount	Index
1926.....	Range from 1921 to 1932 estimated at \$50 to \$100.		50 to 100	100
1927.....				
1928.....				
1929.....				
1930.....				
1931.....				
1932.....				
1933.....	203	18	221	221
1934.....				

AUSTRALIA (COMMONWEALTH BANK)^e

Year	Foreign Assets	Gold	Total Gold Reserves and Funds Held Abroad	
			Amount	Index
1926.....	...	...	...	...
1927.....	...	...	...	...
1928.....	82	112	194	100
1929.....	31	92	123	63
1930.....	16	77	93	48
1931.....	60	53	113	58
1932.....	84	43	127	65
1933.....	168	3	171	88
1934.....	189	3	192	99

^a Data from Canadian Bankers' Association, as reported in Report of Royal Commission on Banking and Currency, 1933, p. 104.

^b Canada Year Book 1936, p. 895.

^c The Canadian Economy and Its Problems (Canadian Institute of International Affairs, Toronto, 1934), pp. 231 and 251.

^d Official Year Book. Data reported is for trading banks prior to 1934; reserve banks and trading banks thereafter; estimate of overseas funds prior to 1932 from commercial banks (League of Nations, 1936), p. 17.

^e Source: Monthly Bulletin of Statistics, League of Nations.

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MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS
“,

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part IV

*The Effects of Federal Tariff Policy
on Western Canadian Economy*

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WINNIPEG, MANITOBA

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PART IV

THE EFFECTS OF FEDERAL TARIFF POLICY ON WESTERN CANADIAN ECONOMY*

This memorandum discusses two aspects of Canadian tariff policy as they affect the economy of the prairie provinces. In Section I we shall briefly trace successive stages in the development of some important aspects of tariff and customs legislation. We shall show the gradual extension of protection up to 1930 and the rapid extension since that date. This extension was provided in five ways: (1) by expansion of the number of items in the tariff; (2) by raising import duties, both ad valorem and specific; (3) by the application of anti-dumping legislation; (4) by fixing values for duty purposes; and (5) by fixing values for duty purposes in combination with the general application of anti-dumping legislation covering imports that compete with goods made in Canada.

There are also constitutional aspects of tariff legislation which we believe it is our duty to lay before this Commission. We will point out the fact that important tariff-making functions have been removed from Parliament, and that the principle of delegated tariff-making has been established in Canada.

In Section II of this memorandum we shall attempt to estimate the cost of the tariff to Western agriculture.

SECTION I. TARIFF AND CUSTOMS LEGISLATION IN CANADA

The development of the Canadian tariff may be studied through historical references to the Customs Act and the Tariff Act. In a discussion of tariff matters we are concerned with tariff rates, with value for duty purposes where ad valorem rates are in effect, and with anti-dumping legislation as it has developed in Canada. In this memorandum primary consideration will be given to the main features of the Customs Act and the Tariff Act that bear upon the establishment of values for duty purposes.

VALUE FOR DUTY PURPOSES

DEVELOPMENT OF SECTION 35

In establishing an ad valorem import duty it is first necessary to fix the dutiable value of an imported article. The basis of establishing such values for duty purposes has been the subject of considerable legislative action in Canada over a long period of years. We propose to trace the legislation on this subject from 1867 to the present time.

*H. C. Grant and C. B. Davidson, with assistance from A. R. Upgren, prepared this submission, and share the responsibilities of authorship. Alvin H. Hansen and Jacob Viner read the manuscript and made helpful suggestions.

ACT OF 1867.—The Customs Act of 1867, Section 30 (1), provided that:

In all cases where any duty is imposed on any goods imported into Canada ad valorem, or according to the value of such goods, such value shall be understood to be the fair market value thereof in the principal markets of the country whence the same were exported directly to Canada; and every appraiser and every collector when acting as such, shall, by all reasonable ways and means in his power, ascertain the fair market value as aforesaid of any goods to be appraised by him, and estimate and appraise the value for duty of such goods, at the fair market value as aforesaid.

FAIR MARKET VALUE (1883).—In the above legislation we wish to call particular attention to the basis of valuation, viz., “such value shall be understood to be the fair market value thereof in the principal markets of the country whence the same were exported directly to Canada.”

The terms of this section remained in force until the Customs Act was consolidated in 1883, when the section was reworded. Section 68 of the 1883 consolidation provided that “Where any duty ad valorem is imposed on any goods imported into Canada, the value for duty shall be the fair market value thereof, when sold for home consumption, in the principal markets of the country whence and at the time when the same were exported directly to Canada.” From this it will be seen that the basis of valuation in the 1883 legislation remained much the same as in 1867, with the added qualification that the value for duty purposes was the fair market value “when sold for home consumption.” This reference to “home consumption” was a new feature.

WHOLESALE PRICES (1921).—The phraseology of the 1883 statutes was unchanged until amended in 1921; in this year a minor amendment was made in the direction of further interpretation of value for duty purposes and an important addition was made to the legislation. This addition was new, stating that the value for duty purposes was to be not less than the wholesale price of the article concerned. This amendment was important in that it marked the first introduction of the principle of relating the value for duty purposes to wholesale prices in other countries.

COST OF PRODUCTION (1921).—The outstanding amendment of 1921, however, was contained in the addition of Subsection 2 to Section 40 of the Customs Act. This stated:

Provided that the value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment directly to Canada, plus a reasonable profit thereon, and the Minister of Customs and Excise shall be the sole judge of what shall constitute a reasonable profit in the circumstances.

We wish to make particular reference to the addition of this subsection to the Customs Act, as it represents a decided change in tariff policy in Canada. In effect, this section provided that the value for duty purposes shall in no case be less than the actual cost of production of similar goods at date of shipment directly to Canada, plus a reasonable profit. Here we have the factor of production costs abroad introduced as a criterion in establishing

value for duty purposes in Canada. But the 1921 addition went further; it stated that the value for duty purposes must also include a reasonable allowance for profit—another new feature. The implication of these new departures was that Canadian tariff authorities in fulfilling their duties had to be in a position to know the costs of production in other countries, so that goods shipped to Canada could be so valued as to include a reasonable profit to the manufacturer or producer abroad.

But the 1921 legislation went still further when it provided that the “Minister of Customs and Excise shall be the sole judge of what shall constitute a reasonable profit in the circumstances.” We submit that this was in fact a delegating of tariff-making or taxing powers to a Minister of the Crown and that it opened the way for vital decisions upon the sole judgment of whoever happened to be Minister of Customs and Excise at the time.

DEPRECIATED CURRENCIES (1922).—The particular section just discussed, however, was short-lived, as it was repealed in 1922, when the Minister of Customs and Excise introduced certain amendments to other sections of the Customs Act. At the same time (in 1922) a further amendment to Section 40 of the Customs Act was made, providing for administrative action in respect to imports from countries with substantially depreciated currencies. The amendment was in the following form:

(2) In the case of importation of goods, the manufacture or produce of a foreign country, the currency of which is substantially depreciated, the value for duty shall not be less than the value that would be placed on similar goods manufactured or produced in the United Kingdom and imported from that country if such similar goods are made or produced there. If similar goods are not made or produced in the United Kingdom, the value for duty shall not be less than the value of similar goods made or produced in any European country the currency of which is not substantially depreciated.

The Minister may determine the value of such goods and the value so determined shall, until otherwise provided, be the value upon which the duty of such goods shall be computed and levied, under regulations prescribed by the Minister.

We do not propose to comment upon the nature of the powers which were introduced into the Customs Act to deal with depreciated currencies in 1922, but we do wish to refer particularly to the powers which were granted to the Minister of Customs and Excise.

SECTION 35 (1927).—The position in respect to value for duty purposes may be summarized by quoting the Customs Act, Section 35, as contained in the revised Statutes of Canada for 1927.

(1) Whenever any duty ad valorem is imposed on any goods imported into Canada, the value for duty shall be the fair market value thereof, when sold for home consumption, in the principal markets of the country whence and at the time when the same were exported directly into Canada.

(2) In the case of importations of goods the manufacture or produce of a foreign country, the currency of which is substantially depreciated, the value for duty shall not be less than the value that would be placed on similar goods manufactured or produced in Great Britain and imported from that country, if such similar goods are made or produced there.

(3) If similar goods are not made or produced in Great Britain, the value for duty shall not be less than the value of similar goods made or produced in any European country the currency of which is not substantially depreciated.

(4) The Minister may determine the value of such goods, and the value so determined shall, until otherwise provided, be the value upon which the duty on such goods shall be computed and levied under regulations prescribed by the Minister.

It will be noted that Subsection 1 of Section 35 as quoted above has the same phraseology as Section 68 of the 1883 Act; Subsections 2, 3 and 4 first appeared in the amended Act of 1922.

We have now traced the history of Section 35 of the Customs Act from 1867 to the present time, including the important additions which were made in 1921 and subsequently dropped in 1922.

DEVELOPMENT OF SECTION 36

Value for duty purposes, however, involves another section of the Customs Act—Section 36 as contained in the revised Statutes of Canada, 1927. We will now trace the history of that section.

SECTION 31 (1867).—In 1867, Section 31 of the Customs Act provided:

The fair market value for duty, of goods imported into Canada, shall be the fair market value of such goods in the usual and ordinary commercial acceptance of the term at the usual and ordinary credit, and not the cash value of such goods, except in cases in which the article imported is by universal usage considered and known to be a cash article, and so bona fide paid for in all transactions in relation to such article; and no discounts for cash shall in any case be allowed in deduction of the fair market value as herein above defined; and all invoices representing cash values, except in the special cases herein above mentioned, shall be subject to such additions as to the Collector or Appraiser of the Port at which they are presented, may appear just and reasonable to bring up the amount to the true and fair market value as required by this section.

Changes in the wording of this clause made in 1883, 1886, and 1907 were of minor importance and will not be dealt with in this memorandum.

1930 AMENDMENTS.—In 1930, however, Section 36 as it appeared in the revised Statutes of 1927 was repealed, and the following section substituted:

(1) Such market value shall be the fair market value of such goods in the usual and ordinary commercial acceptance of the term, and as sold in the ordinary course of trade, such value in no case to be lower than the selling price thereof to jobbers or wholesalers generally at the time and place of shipment direct to Canada.

(2) Provided that the value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus a reasonable advance for selling cost and profit and the Minister shall be the sole judge of what shall constitute a reasonable advance in the circumstances, and his decision thereon shall be final.

The first part of the amending section reaffirms the basis which had been previously adopted, namely, that such market value shall be the fair market value in the usual and ordinary commercial acceptance of the term and if sold in the ordinary course of trade. However, another clause was added, stating that such value in no case shall be lower than the selling price thereof to jobbers or wholesalers generally, at the time and place of shipment direct to Canada. Here again we have a reference in the fixing of value for duty purposes in Canada to wholesale price levels abroad.

COST OF PRODUCTION PLUS SELLING COSTS PLUS PROFIT (1930).—Subsection 2 as quoted above is decidedly important in that it went a step further than any other previous legislation in regard to the basis upon which values for duty purposes are established. It provides that the value for duty purposes shall not be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus a reasonable advance for selling cost and profit. The 1930 revision to Section 36 introduced almost exactly the same type of legislation that had been introduced in 1921 as an amendment to Section 35, which amendment was dropped in 1922. There was this difference, however: the 1930 amendments to Section 36 went one step further and included not only cost of production and profit as criteria for fixing value for duty purposes, but also a reasonable advance for selling cost.

MINISTER SOLE JUDGE (1930).—The legislation of 1930 also included the granting of wide powers to the responsible Minister. The section read: "The Minister shall be the sole judge of what shall constitute a reasonable advance in the circumstances, and his decision thereon shall be final."

COMPLICATED ADMISSION OF GOODS (1930).—The amendments of 1930 greatly complicated the admission of goods into Canada, by making specific knowledge a prerequisite to the fixing of import valuations. This fact will be appreciated when it is considered that before valuation for duty purposes can be established, the responsible Minister and the responsible Department must be satisfied as to the cost of production of the specified article in the country from whence it is imported; they must also be satisfied in every case that, in addition to the actual cost of production of the goods imported into Canada, a reasonable advance has been made in respect to selling costs, and that the manufacturer abroad has included in his price a due allowance for profit.

In summary, this legislation placed upon the responsible Minister and his Department the duty of ascertaining the cost of production of thousands of commodities produced in all countries, and of satisfying themselves, once the cost of production in these countries has been ascertained, that such value for duty purposes also included a "reasonable advance for selling costs and profit." And, furthermore, the Minister was to be the sole judge of what constitutes "a reasonable advance for selling costs and profit."

Let us look at the effect of these provisions on a manufacturer who wishes to export to Canada. Under the terms of Section 36, as established in 1930, he must furnish, if so requested, to the responsible Minister and his Department, evidence as to his cost of production, which involves a detailed analysis of his business operations; also evidence that he has included "reasonable selling cost" and that he is making a profit out of the business that he is doing in Canada.

In 1934 Subsection 1 of Section 36 was repealed, leaving Subsection 2 as the basis for establishing value for duty purposes in Canada.

1936 CHANGES.—In 1936 Subsection 2 of Section 36, as enacted in 1930, was repealed and the following substituted as Section 36 of the Customs Act:

The value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus a reasonable advance for selling cost and profit, such advance not to be greater than that which in the ordinary course of business under normal conditions of trade, is added, in the case of goods similar to the particular goods under consideration, by manufacturers or producers of goods of the same class or kind in the country of export when sold for home consumption.

Section 36 as it stands today in the Statutes of Canada retains the main points enacted in 1930. It provides for the fixing of values for duty purposes on the basis of cost of production, plus a reasonable advance for selling cost and profit.

The changes made in 1936 may be summarized thus: The advance for selling cost and profit included in fixing the value for duty purposes shall not be greater than in the ordinary course of business under normal conditions of trade. In addition, the explicit power granted to the responsible Minister in 1930 does not appear in the legislation of 1936.

REASON FOR AMENDMENT OF 1936.—In respect to the 1936 amendment to Section 36, the Minister of National Revenue stated:

Exporters in the United States and importers in Canada have complained during the past few years that in determining the cost of production in the country of origin and a reasonable advance for selling cost and profit, the Department of National Revenue have arrived at an unreasonably high value for duty purposes, the result being that if an ad valorem rate were applicable it worked out to too large an amount. Also provisions of Section 6, of the Customs Tariff Act, were brought into play, with the result that a special or dumping duty was payable.¹

Thus, in amending Section 36 in 1936, the Minister of National Revenue admitted that unreasonably high duty had been levied under the legislation as established in 1930. The Minister further stated:

1. See Hansard, 1936, page 2,021.

We propose to amend Section 36 (2) so that in future the advance added to the cost of production for selling cost and profit will not be unreasonable. Specifically, it will not be greater than that amount which in the ordinary course of business and under normal conditions of trade is added in the case of goods similar to the particular goods under consideration by manufacturers or producers of goods of the same class or kind in the country of export.²

We will now pass to a consideration of another interesting phase of tariff development in Canada, namely, the development of Section 43 of the Customs Act.

DEVELOPMENT OF SECTION 43

NATURAL PRODUCTS (1922).—In 1922 the Federal government amended the Customs Act, enabling the Governor-in-Council to authorize the Minister of National Revenue to fix values for natural products of a class or kind produced in Canada that injuriously affected the interests of Canadian producers. The full text of this clause (Section 43 of the Customs Act) is as follows:

If at any time it appears to the satisfaction of the Governor-in-Council on a report from the Minister, that natural products of a class or kind produced in Canada are being imported into Canada, either on sale or on consignment, under such conditions as prejudicially or injuriously to affect the interests of Canadian producers, the Governor-in-Council may, in any case or class of cases, authorize the Minister to value such goods for duty, notwithstanding any other provisions of this Act, and the value so determined shall be held to be the fair market value thereof. (1922, c. 18, s. 3.)

The intention of this section was to enable the government to provide seasonal tariffs for natural products, especially fruit and vegetables, imported into Canada at the time Canadian crops were moving.

MINISTERIAL POWERS EXTENDED (1930).—In 1930 Section 43 was repealed and the following substituted:

(1) If at any time it appears to the satisfaction of the Governor-in-Council on a report from the Minister that goods of any kind are being imported into Canada, either on sale or on consignment, under such conditions as prejudicially or injuriously to affect the interests of Canadian producers or manufacturers, the Governor-in-Council may authorize the Minister to fix the value for duty of any class or kind of such goods and notwithstanding any other provision of this Act, the value so fixed shall be deemed to be the fair market value of such goods.

(2) Every order of the Governor-in-Council authorizing the Minister to fix values for duty of any class or kind of such goods, and the value thereof so fixed by the Minister by virtue of such authority, shall be published in the next following issue of the Canadian Gazette.

The 1922 amendment had been intended to deal with a very small and highly seasonable item in Canadian import trade. But in 1930 the principle involved in the 1922 amendment was given more general application. It is not necessary to elaborate on this fact, as the wording is absolutely clear in respect to the intentions and expectations of Parliament.

2. *Ibid.*

We submit that the terms of the 1930 amendment, as contained in Section 43 of the Customs Act, are a negation of those principles upon which the international exchange of commodities should take place, and a negation of the principles upon which taxation should be levied in Canada.

MINISTERIAL POWERS LIMITED (1932).—In 1932 Subsection 1 of Section 43 was repealed and the following new subsection substituted therefor:

If at any time it appears to the satisfaction of the Governor-in-Council on a report from the Minister that goods of any kind not entitled to entry under the British Preferential Tariff or any lower tariff are being imported into Canada either on sale or on consignment, under such conditions prejudicially or injuriously to affect the interests of Canadian producers or manufacturers, the Governor-in-Council may authorize the Minister to fix the value for duty on any class or kind of such goods and notwithstanding any other provision of this Act, the value so fixed shall be deemed to be the fair market value of such goods.

The effect of this amendment was to limit the powers of the subsection to goods not entitled to entry under a British preferential tariff, or any lower tariff, if such exists.

APPEAL TO TARIFF BOARD (1936).—In 1936 Section 43 was further amended by adding a new subsection (3) which read as follows:

In the case of any value for duty established under the provisions of this section after the first day of January, 1936, any interested person may apply to the Tariff Board by way of appeal therefrom. The Tariff Board shall thereupon conduct a public inquiry and make its findings as to whether, to what extent, and for what period such value is required to prevent the importation of goods into Canada from prejudicially or injuriously affecting the interests of Canadian producers or manufacturers. If no fixed value is found by the Tariff Board to be required, or if a lower value is found to be appropriate, the finding of the Tariff Board will become at once effective. If appeal is made to the Tariff Board such value authorized by the Minister shall in default of any finding by the Tariff Board in the meantime cease to have force and effect upon the expiration of three months from the date of such application to the Tariff Board.

The effect of this new subsection (3) was to provide for an appeal to the Tariff Board in respect to valuations established under provisions of Section 43 of the Customs Act. While we agree that this provision was a decided improvement and recognized the public interest in decisions which might be made under Section 43, the fact still remains that uncertainties in respect to valuation for duty purposes persist and constitute a decidedly limiting factor in respect to the importation of goods into Canada. We do not need to stress the point that for international trade to be conducted upon a reasonable basis it is essential that the exact terms and conditions of entrance be known to both importers in Canada and exporters abroad.

ANTI-DUMPING LEGISLATION

Anti-dumping legislation in Canada dates back to 1904. At that time the Customs Tariff Act was amended as follows:

19 (1) Whenever it appears to the satisfaction of the Minister of Customs or of any officer of customs authorized to collect customs duties, that the export price or the actual selling price to the importer in Canada of any imported dutiable article of a class or kind made or produced in Canada, is less than the fair market value thereof, as determined according to the basis of value for duty provided in the Customs Act in respect of imported goods subject to an ad valorem duty, such article shall, in addition to the duty otherwise established, be subject to a special duty of customs equal to the difference between such fair market value and such selling price; provided, however, that the special customs duty on any article shall not exceed one-half of the customs duty otherwise established in respect of the article, except in regard to the articles mentioned in items 224, 226, 228 and 231 in Schedule A to the Customs Tariff, 1897, the special duty of customs on which shall not exceed fifteen per cent ad valorem, nor more than the difference between the selling price and the fair market value of the article.

In the legislation of 1904 there were eight subsections under Section 9 relating to detail rather than to principle; we will make no comment upon these subsections. The principle of the legislation is contained in Subsection 1 as quoted above.

PRINCIPLE OF LEGISLATION OF 1904.—The principle involved in the 1904 legislation was that if the actual selling price to the importer in Canada of any imported dutiable article of a class or kind made or produced in Canada was less than the fair market value thereof as determined by the Customs Act as it then stood, then such goods were to be subject to a special duty equal to the difference between the fair market value and the selling price. The special duty was not to exceed one-half of the customs duty otherwise established for the article.

The importance of the 1904 legislation lies in its provision for protecting Canadian industry against goods being dumped on the Canadian market from abroad. It provided a method whereby dumping in the Canadian market could be prevented. It further provided for legal recognition of the difference in status between goods made in Canada and those not made in Canada. The legislation of 1904 refers explicitly to goods "of a class or kind made or produced in Canada." This differentiation between goods made in Canada and goods not made in Canada has become increasingly marked with the development of tariff and customs legislation.

Subject to some rearrangement, the dumping legislation of 1904 was carried forward as Section 12 of the Customs Act of 1906.

SECTION 6 (1907).—In 1907 the Canadian Customs Tariff Act was consolidated, and Section 12 of the 1906 legislation became Section 6 of the 1907 consolidation, certain changes being made. Section 6 as established in 1907 read as follows:

In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, there shall, in addition to the duties otherwise established, be levied, collected and paid on such article on its importation into Canada, a special duty (dumping duty) equal to the difference between the said selling price of the article for export and the said fair market value thereof for home consumption; and such special duty (dumping duty) shall be levied, collected and paid on such article, although it is not otherwise dutiable.

Provided that the said special duty shall not exceed fifteen per cent ad valorem in any case.

Provided also that the following goods shall be exempt from such special duty, viz.:

- (a) goods whereon the duties otherwise established are equal to fifty per cent ad valorem;
- (b) goods of a class subject to excise duty in Canada;
- (c) sugar refined in the United Kingdom;
- (d) binder twine or twine for harvest binders, manufactured from New Zealand hemp, istle, or tampico fibre, sisal grass, or sunn, or a mixture of any two or more of them, of single ply and measuring not exceeding six hundred feet to the pound.

Provided further that excise duties shall be disregarded in estimating the market value of goods for the purpose of special duty when the goods are entitled to entry under the British Preferential Tariff.

The legislation of 1907 was more comprehensive than that of 1904. Since it included reference to fair market value "when sold for home consumption in the usual and ordinary course in the country from whence exported to Canada," its definition of fair market value was more definite than that of the legislation of 1904. A further step was taken in the 1907 legislation in that its dumping legislation applied to articles which were duty free; the 1904 legislation had referred only to dutiable articles.

SECTION 6 (1927).—In order to trace more clearly the subsequent changes in Section 6 of the Tariff Act, we quote herewith Section 6 as it stood in 1927, although there were only slight changes made in this legislation between 1907 and 1927.

In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, there shall, in addition to the duties otherwise established be levied, collected and paid on such article, on its importation into Canada, a special or dumping duty, equal to the difference between the said selling price of the article for export and the said fair market value thereof for home consumption; and such special or dumping duty shall be levied, collected and paid on such article, although it is not otherwise dutiable.

Provided that the said special duty shall not exceed fifteen per cent ad valorem in any case; and the following goods shall be exempt from such special duty:

- (a) goods whereon the duties otherwise established are equal to fifty per cent ad valorem;
- (b) goods of a class subject to excise duty in Canada;
- (c) sugar refined in the United Kingdom;
- (d) binder twine or twine for harvest binders manufactured from New Zealand hemp, istle, or tampico fibre, sisal grass, or sunn, or a mixture of any two or more of them, of single ply and measuring not exceeding six hundred feet to the pound.

As regards the 1927 anti-dumping legislation, we wish to point out its similarity to the 1907 legislation. It is important to notice that the 1927 legislation provided specifically that the special or dumping duty should not exceed 15 per cent ad valorem in any case; and, further, goods whereon duty otherwise established was equal to 50 per cent ad valorem were exempt from dumping duties.

REVISION OF 1930.—A major revision of Section 6 of the Tariff Act took place in 1930. The following section was substituted:

(1) In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, or is less than the fair market value or value for duty thereof as determined under the provisions of section thirty-six of the Customs Act, or is less than the fair market value thereof as fixed by the Governor-in-Council under the provisions of section thirty-seven of the Customs Act, or is less than the value for duty thereof as determined by the Minister under the provisions of paragraphs (a) and (e) of section forty-one of the Customs Act, or is less than the fair market value thereof as fixed by the Minister under the provisions of section forty-three of the Customs Act, there shall, in addition to the duties otherwise established, be levied, collected and paid on such article, on its importation into Canada, a special or dumping duty, equal to the difference between the said selling price of the article for export and the said fair market value thereof or value for duty thereof; and such special or dumping duty shall be levied, collected and paid on such article although it is not otherwise dutiable.

Provided that the said special duty shall not exceed fifty per cent ad valorem in any case, and the following goods shall be exempt from special duty, viz.:

Goods of a class subject to duty under the Excise Act.

Provided, notwithstanding, that on importations from Australia under the Australian Trade Agreement Act, 1925, the said special duty shall not exceed fifteen per cent ad valorem in any case.

Notwithstanding anything in this Act contained the levying and collection heretofore of special or dumping duty in cases where the fair market value of goods was determined by the Minister, acting or purporting to act under the provisions of section forty-seven (a) of the Customs Act, as enacted by section three of chapter eighteen of the Statutes of 1922 (section forty-three of the Customs Act, R.S. 1927), is hereby ratified and confirmed.

The first part of Section 6 as established in 1930 is identical with the corresponding portion of Section 6 as of 1927. In 1930, however, an important addition was made. The 1930 legislation read, as in 1927, that "if the export

or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada"; but in 1930 the legislation goes further and adds "or is less than the fair market value or value for duty thereof as determined under the provisions of section thirty-six of the Customs Act, or is less than the fair market value thereof as fixed by the Governor-in-Council under the provisions of section thirty-seven of the Customs Act, or is less than the value for duty thereof as determined by the Minister under the provisions of paragraphs (a) and (e) of section forty-one of the Customs Act, or is less than the fair market value thereof as fixed by the Minister under the provisions of section forty-three of the Customs Act."

EXTENSION OF POWERS (1930).—The effect of the addition of these words in 1930 was to bring the full powers of dumping legislation as it had previously been developed in Canada to bear on the bases of valuation which had been established under Sections 36, 37, 41, and 43 of the Customs Act. Prior to this change in the statutes, dumping legislation had been developed in order to meet those infrequent conditions under which commodities are dumped in international trade. By the legislation of 1930, the anti-dumping legislation developed in previous years was given general application to the tariff structure of Canada, coming to apply to valuations established under those sections of the Customs Act previously discussed.

There were further features added in 1930. Under the 1927 legislation the special or dumping duty could not exceed 15 per cent ad valorem in any case. Under the legislation of 1930 the special maximum or dumping duty was raised to 50 per cent ad valorem.

EXEMPTION DROPPED (1930).—It will also be recalled that in the 1927 legislation articles were exempt from the special or dumping duty if duties otherwise established were equal to 50 per cent ad valorem. In the 1930 legislation this exemption was dropped.

DEPRECIATED CURRENCIES (1933).—In 1933 a new subsection was added to Section 6. This read as follows:

9 (a) Notwithstanding the provisions of any other law, the Governor-in-Council may, from time to time as occasion requires, order and direct, subject to such exceptions as may be made, what shall be the rate of exchange fixed for any currency in computing the value for duty of goods imported into Canada from any place or country the currency of which is depreciated and in case a sum in Canadian currency less than the invoice value of the goods in the currency of the place or country of export, computed at the rate of exchange so ordered, be paid for the goods, the actual selling price of the goods to the importer shall be regarded as less than the fair market value of the goods when sold for home consumption, and the provisions of this section shall apply and special or dumping duty shall apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order of the

Governor-in-Council, and the value of such invoice, computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor-in-Council may from time to time order and direct; and the Governor-in-Council may order and direct that in all cases of sales or consignments of goods imported into Canada, where the importer owns, controls or is interested in the business of the exporter, or the exporter owns, controls or is interested in the business of the importer, or the importer and exporter operate under a controlling or holding company, notwithstanding the expressed terms of the sale or consignment, the transaction shall be regarded as a sale and the actual selling price to the purchaser in Canada shall be taken to be the value of the goods in the currency of the place or country of export converted into Canadian currency at the current rate of exchange, or at the average current rate from time to time fixed by order of the Governor-in-Council, and shall be regarded as less than the fair market value of the goods when sold for home consumption, and the provisions of this section shall apply and special or dumping duty shall be deemed to apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order of the Governor-in-Council, and the value of such invoice computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor-in-Council may from time to time order and direct.

Any order-in-council made hereunder may be varied, extended or revoked at any time by the Governor-in-Council.

The foregoing section provides the basis for the power the Governor-in-Council exercised, in 1933 and later, in respect to fixing rates of exchange for the calculation of value for duty purposes in the case of goods shipped from countries with depreciated currencies.

We merely call the attention of the Commission to the powers taken at that time, powers which had the effect of adding special duties to offset foreign currency depreciation and of insulating the price structure in Canada from the effects of prices which might be quoted to Canadian importers in countries whose currencies were to any great extent depreciated.

1936 CHANGES.—In 1936 Subsection 1 of Section 6 of the Tariff Act was repealed and a new subsection substituted therefor. This reads as follows:

In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, or is less than the fair market value or value for duty thereof as determined under the provisions of section thirty-six of the Customs Act or is less than the value for duty thereof as determined by the Minister under the provisions of paragraphs (a) and (e) of section forty-one of the Customs Act, or is less than the fair market value thereof as fixed under the provisions of section forty-three of the Customs Act, there shall, in addition to the duties otherwise established be levied, collected and paid on such article, on its importation into Canada, a special or dumping duty, equal to the difference between the said selling price of the article for export and the said fair market value thereof or value for duty thereof; and such special or dumping duty shall be levied, collected and paid on such article although it is not otherwise dutiable.

Provided that when it is established that any articles though of a class or kind made or produced in Canada are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms under like conditions, having regard to the custom and usage of trade, such articles may be exempted from special or dumping duty.

The main point of difference between the original and substituted subsection is the deletion of reference to Section 37, which no longer exists in the Customs Act. Also a provision was made to the effect that where articles of a class or kind made or produced in Canada are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms, such articles may be exempted from special or dumping duty. In discussing this amendment in the House of Commons, the Minister of National Revenue explained that its purpose was to provide for the waiving of dumping duties if it was felt that monopolistic conditions existed in the Canadian market and that the public were being exploited.

The most important amendment, however, was the addition of Subsection 10, which stated:

For the purposes of this act articles shall not be deemed to be of a class or kind made or produced in Canada unless so made or produced in substantial quantities and the Governor-in-Council may by order-in-council provide that such quantities, to be substantial, shall be sufficient to supply a certain percentage of the normal Canadian consumption and may in such order fix such percentage.

This decidedly important amendment provided that no industry in Canada could secure the benefits of Section 6 of the Tariff Act unless it was in a position to supply a certain percentage of the normal Canadian consumption. In introducing this amendment the Minister of National Revenue stated that it originated in the then recently negotiated trade treaty with Japan, in which the Canadian government had undertaken not to apply dumping duty unless Canadian production exceeded 10 per cent of the total Canadian consumption.

We feel that this section had a liberalizing effect, but the fact still remains that 100 per cent of the Canadian consumption of any commodity can be taxed through the imposition of dumping duties in order to give additional protection to the manufacturer who is supplying any portion of the Canadian market over 10 per cent.

There has been, then, a more or less steady trend toward increasing the burden of tariff on Canadian consumers and more effective amounts of protection given to domestic producers; and the mechanism of importation has become more burdensome and more hazardous for importers through a series of changes in valuation provisions pointing to more rigorous and more arbitrary customs administration.

TARIFF RATES

Having dealt in some detail with tariff and customs legislation, we wish now to direct a few remarks to tariff rates. The Tariff Act, which includes tariff rates, was a relatively simple piece of legislation in the 1906 consolidation

of the Statutes of Canada. At that time items in the tariff were relatively few and the commodities coming into Canada were either subject to stated duties or included definitely on a free list. Since 1906 the Tariff Act has developed continuously; new items have been added and old items have been sub-divided, so that consideration of a consolidation of the Tariff Act in any of recent years reveals a complex and unwieldy rate structure affecting a tremendously wide range of commodities. So complex have tariff schedules become that there are few people in Canada who understand the workings of present tariff schedules.

We do not propose to enter into a detailed discussion of tariff rates, but only to suggest to the Commission that there is little doubt that tariff rates have increased strikingly in the past thirty years.³ We could refer to particular rates which have increased during this period; we could refer to commodities which were duty free thirty years ago, but which today are subject to duties; and if the Commission so desires we would be glad to submit more details along this line. But at the moment we will content ourselves with the above observation that there has been an upward movement in tariff rates over the last thirty years, and consequently that the tariff burden upon the primary industries of Western Canada has been increasing steadily.

SUMMARY OF TARIFF AND CUSTOMS LEGISLATION

We have discussed in some detail the Statutes of Canada dealing with the Tariff Act and the Customs Act. We believe that our discussion of this legislation justifies the following observations:

1. We submit that it is a fair interpretation of the analysis of customs and tariff legislation as outlined in the preceding pages to state that there has been a progressive tightening of import restrictions in Canada. There have been occasions in Canada when import restrictions have been eased, but looking at the development of tariff and customs legislation over a long period of years, we submit that the basic trend has been in the direction of increasing restriction. In its early years the Canadian tariff was a simple matter, but it has now become a complicated instrument of trade control, which might be designated a "protective system" rather than a protective tariff.

2. We submit that in the development of customs and tariff legislation in Canada, certain basic principles of taxation have not been recognized to the extent they should have been. We regard import duties, or any measures of import control having as their effect either increasing existing rates or limiting entrance of goods from abroad, as being a form of taxation. In our view, it is a sound principle that the taxation of imports should be a matter of decision by the Federal Parliament, and we believe that the development in recent

3. Official reports of House of Commons Debates, Ottawa, indicate that "orders for return" have been requested to show specific increases in rates and items, but as these are not published in Hansard, they are not available for submission at this time.

years, whereby import duties may be levied or affected by decisions of the Governor-in-Council or the Minister of National Revenue or the Department of National Revenue, constitutes an undesirable method of levying taxation, especially where full information is not available to the public in respect to the use of delegated powers.

3. In the conduct of international trade it has been recognized that a tariff should extend definite and fixed treatment to commodities entering a foreign country. The rates may be high or low, but they should be well known and well defined. We submit that the trend of tariff legislation in Canada in recent years has been away from this principle, that it has more and more tended towards treating each shipment on an individual basis, and has more and more involved the discretion and judgment of either the Minister of National Revenue or the Department of National Revenue in respect to the terms of admittance.

4. We submit that the admission of goods into Canada is unduly restricted, or unduly complicated, by those features of the Tariff Act or the Customs Act requiring the Department of National Revenue to base values for duty purposes upon detailed inquiries in foreign countries to ascertain: (a) cost of production; (b) selling cost; (c) profits. We submit that the basing of import values upon comprehensive investigations in foreign countries cannot but slow down administrative action and delay, hinder, and discourage the flow of imported goods into Canada; and has probably had the effect of creating a certain amount of ill-will towards Canada on the part of those countries whom we expect to buy large amounts of Canadian wheat and farm products.

5. We submit that the present basis of fixing import valuations leaves a great element of uncertainty in respect to tariff rates in Canada. The exporter abroad and the importer in Canada do not know exactly how their goods are to be treated by the customs administration, and the flow of goods into Canada is thereby hindered, and healthy foreign competition in the Canadian market is restricted.

6. We submit that the trend of tariff and customs legislation is to maintain the prices of imported goods laid down in Canada and to eliminate price competition from abroad. This lack of healthy foreign competition tends to create artificial price levels in Canada.

7. The powers granted under Section 43 of the Customs Act give effect to exaggerated protectionist doctrines. As an instance of this, the Commission is referred to Order-in-Council No. 2910, dated December 17, 1930, which deals with the application of Section 43 of the Customs Act to barbed wire, a farm necessity which, up until a few years ago, had been treated as a "free product."

EFFECTS OF FEDERAL TARIFF POLICY

AT THE GOVERNMENT HOUSE AT OTTAWA

Wednesday, the 17th Day of December, 1930

PRESENT: HIS EXCELLENCY THE GOVERNOR-GENERAL-IN-COUNCIL

Whereas, the Minister of National Revenue reports that Barbed Wire is being imported into Canada under such conditions as prejudicially or injuriously affect the interest of the Canadian producers;

Therefore, His Excellency the Governor-General-in-Council, on the recommendation of the Minister of National Revenue, is pleased under the authority of Section 43 of the Customs Act, Chapter 42, R.S.C. 1927, as amended by Section 4 of an Act to amend the Customs Act assented to 22nd September, 1930, to authorize and doth hereby authorize the Minister of National Revenue to fix the value for duty of Barbed Wire, notwithstanding any other provision of the Customs Act; the value so fixed to be deemed to be the fair market value thereof.

E. J. Lemaire,
Clerk of the Privy Council.

8. We submit that the successive amendments to the Tariff Act and the Customs Act which we have reviewed have unduly limited the importation of goods into Canada, have tended to stifle foreign competitors in the domestic market, and have specifically increased the cost of production and the cost of living in the prairie provinces.

9. We submit that the increased tariff load was placed upon the West at a time when prices for farm products were at abysmally low levels and that this action on the part of the Federal government greatly increased the financial difficulties of farmers in Manitoba and affected the ability of the Manitoba government to maintain its revenues from taxation.

10. The legislation outlined above diminished tariff revenues and these diminished tariff revenues were offset in part by the sales tax. Thus a double load was placed upon primary producers of Western Canada.

11. Finally we submit that Federal tariff policy has constituted a disability of major proportions for the people and governments of Western Canada, a disability which has grown with each successive tightening of import restrictions.⁴

4. An approximation of the relative advantage or subsidy received in the Province of Manitoba from the operation of the Canadian tariff is suggested in the following data. All data are from publications of the Dominion Bureau of Statistics, Ottawa.

NUMBER GAINFULLY EMPLOYED, 1931		
<i>Industry</i>	<i>Canada</i>	<i>Manitoba</i>
Coal mining.....	31,490	41
Fruit and vegetable canning.....	3,073	20
Sugar refining.....	2,219	4
Rubber products.....	13,917	97
Tobacco.....	7,524	5
Leather.....	25,094	437
Boots and shoes.....	16,411	50

(Footnote Continued on Page 18)

EFFECTS OF FEDERAL TARIFF POLICY

NUMBER GAINFULLY EMPLOYED, 1931—*Continued*

<i>Industry</i>	<i>Canada</i>	<i>Manitoba</i>
Textiles	97,739	1,563
Cotton goods	18,444	12
Clothing (not custom)	43,029	1,182
Women's clothing	15,890	319
Furniture	14,716	416
Agricultural implements	7,968	520
Smelting and refining	20,125	798
Total iron and products	46,004	10,087

NUMBER AND PER CENT GAINFULLY OCCUPIED, BY INDUSTRY, MANITOBA, 1936

<i>Industry</i>	<i>Number</i>	<i>Per Cent</i>
Agriculture	93,261	34.45
Forestry, fishing, and trapping	4,705	1.75
Mining	2,136	.79
Electric power	1,368	.51
Construction	15,806	5.84
Transportation	23,782	8.78
Trade	31,216	11.53
Finance	6,859	2.53
Service	53,203	19.65
Unspecified	11,909	4.40
Manufacturing	26,447	9.77
Total	270,692	100.00

PRINCIPAL STATISTICS OF THE SIX LEADING MANUFACTURING INDUSTRIES OF MANITOBA, 1932

<i>Industry</i>	<i>Numbers of Employees</i>	<i>Gross Value of Products</i>
Slaughtering and meat-packing	1,214	\$13,011,468
Railway rolling stock	4,700	8,936,011
Central electric stations	1,161	6,534,141
Flour and feed mills	479	6,443,072
Butter and cheese	993	6,239,213
Printing and publishing	1,112	3,943,006

SECTION II. INCIDENCE OF THE TARIFF BURDEN ON WESTERN CANADA

The Commission is no doubt aware of the estimate made by Norman McL. Rogers of the provincial incidence of the Canadian tariff.⁵ We shall not attempt to criticize or sustain his methods or results, which the author himself presents with reservations.⁶ Professor MacGregor, who criticizes Mr. Rogers' method,⁷ doubts the validity of assuming that the prices of protected goods are raised by 26 per cent (duties collected as a percentage of dutiable imports). He also challenges the estimates of the total value of production which is supposed to benefit from the tariff and attempts to show by another method that Mr. Rogers has probably overestimated such benefits. With these refinements of technique we are not at this time concerned. We are, however, urgently concerned with revealing as realistically and objectively as possible the added burden that national tariff policy places on the agricultural industry of Western Canada.

The importance to Canada of western agriculture and the necessity of lowering the costs of producing western grain, if it is to compete successfully in world markets, are axiomatic. It is agreed that we should pay some price for federation and the preservation of a balanced economy. But the price we pay should be known, and the administrative devices by which we are compelled to pay should be revealed, if the inequities of our present arrangement are to be adjusted. We have attempted to reveal how tariff and customs administration increased the weight of protection; we shall now attempt to measure the burden in money terms.

5. Norman McL. Rogers, *A Submission on Dominion-Provincial Relations and the Fiscal Disabilities of Nova Scotia within the Canadian Federation*. King's Printer, Halifax, 1934.

6. *Ibid.* Mr. Rogers says: "It is desirable to emphasize again that this table representing the provincial distribution of tariff, subsidies and tariff costs, is chiefly valuable as an indication of a condition." His estimates of enhancement of prices due to the tariff are:

	<i>Total</i>	<i>Net Gain Per Capita</i>	<i>Net Loss Per Capita</i>
Prince Edward Island	\$ 2,042,150	.....	\$17.88
Nova Scotia	15,784,124	.....	12.28
New Brunswick	12,891,077	.....	11.67
Quebec	101,171,562	\$11.03	.....
Ontario	168,732,723	15.15	.....
Manitoba	29,185,740	.....	13.25
Saskatchewan	29,228,285	.....	23.16
Alberta	27,909,396	.....	26.93
British Columbia	37,737,247	.....	22.33

7. D. C. MacGregor, *The provincial incidence of the Canadian tariff*, *Canadian Journal of Economics and Political Science*, Vol. 1, 1935.

INVESTIGATION OF THE BURDEN OF NATIONAL TARIFF POLICY ON WESTERN AGRICULTURE

The cost of the tariff is known and felt by Western farmers when they buy producers' or consumers' goods. They may not know particular rates, or how tariff costs are pyramided, or whether the duties levied are fully protective for Canadian industry, or the extent of competition in the Canadian market. But they do know, for instance, by direct price comparison that they are paying more for automobiles than the United States farmers, and they suspect that a comparison of other items would reveal similar discrepancies.

PREPARATION OF SAMPLE BUDGET

This, in brief, is our approach to the problem. We first prepared a budget of farm expenditures by commodity groups. This budget is based on data collected by the Dominion Bureau of Statistics, on investigations made by agricultural economists, and on an index of farm purchasing power which is compiled and published by the Searle Grain Company of Winnipeg and which includes a so-called normal farm budget. All of these data have been compared by us and a composite farmer's budget prepared that we believe evens out the inadequacies of any one estimate and is as typical as our information and judgment will permit.

The budget of farm expenditures which might be affected by the tariff is made up of the following commodity groups:

	<i>Estimated Farm Budget</i>	<i>Amount in Our Price Data</i>
Automotive equipment and fuel	\$100	\$100
Machinery, implements, tools and supplies . .	325	250
Building material	60	60
Household equipment, furniture	90	16
Clothing	200	85
Food	250	100

We then compiled a list of over two hundred single items which were classified under the above commodity headings. With this list we conducted an investigation of prices paid by farmers in northern Minnesota and southern Manitoba. The survey was made on both sides of the border in areas located approximately thirty miles, in each case, from the boundary. We chose these locations in order to avoid any effect of what might be termed border influence upon prices.⁸

INADEQUACIES OF OUR DATA

The inadequacies of the data compiled may be analyzed as follows:

1. Neither our original list nor the final data on comparable prices are a complete sample of what farmers purchase. For some articles comparable

8. We also present prices for a considerable number of commodities where alternative grade or quality gives opportunity for choice. Where choice is given we do not duplicate this item but use only the item which has the lowest price difference. Mail-order catalogue prices are included to check certain data on retail quotations. In some cases we use mail-order prices. For instance, wagon boxes were sold in Minnesota at \$30 as against \$36 in Manitoba. Mail-order catalogues revealed no price difference for wagons, so we used their prices.

prices were unobtainable, and for others variations in quality were so great as to cause us to delete them from our calculations.

2. We omit urban consumption from our calculations, but attempt later on to include it on the basis of urban-rural population ratios.

3. We have not been able to check the possible excess of United States prices over Canadian prices against prices of comparable commodities obtained free of duty from a third country. For instance, we have not been able to measure the added costs, if any, of the duty on woollen goods imported, let us say, from the United Kingdom. The effect of this omission is to make our estimate of the tariff burden an understatement by an amount which we have not attempted to estimate because of the limitations of the scope of our investigations.

4. It is beyond the limitations of our study to attempt to estimate just how much the tariff burden and the freight rate burden overlap. For instance, with regard to shingles and cement—two commodities that appear together on our list—we may assume that freight rates cause the first to be higher in price and monopoly the second. There may be other items of this nature, the tariff on which is not wholly responsible for the increased price. Whatever the reason, the burden is there.

5. Our price comparisons are of retail prices and the differentials could therefore conceivably be due to different retail mark-ups rather than to the tariff. But in the absence of tariff such differences in mark-ups would not persist in the same immediate neighbourhood. The Royal Commission on Price Spreads produced evidence that the Canadian average mark-up is ordinarily below the American, so that differences in prices do not reveal the full burden of the tariff.⁹

6. As our data do not cover all the items which are included in a typical farm budget, we merely assume that the remainder bear an equally heavy tariff burden. This assumption may be invalid, but on checking over a long list of tariff rates on such items we came to the conclusion that the probable error involved was not great.

ADJUSTING FOR INADEQUACY OF SAMPLE

We have mentioned previously that our list of commodities for which comparable prices were obtained represents only a portion of what we have chosen to call our estimated normal farm budget of expenditures. For example, we estimate price differences for annual purchase of machinery, implements, etc., to the amount of \$250, while a normal average expenditure should be approximately \$325. Our estimated added cost, as a result of the tariff, on purchases of \$250 is \$14.19. We therefore have increased this cost to \$18.45, which is $\$14.19 \times \frac{325}{250}$.

9. Report of the Royal Commission on Price Spreads, pp. 211-212. King's Printer, Ottawa, 1935.

CHECKS ON DATA

For the information of the members of this Commission and as a possible means of checking our prices, there are included, as Appendix tables to this section, data on "value of imports, duty collected, and effective rate of duty paid for some major items of consumption." The effective rate is the amount of duty collected expressed as a percentage of the total value of imports (both dutiable and non-dutiable). We also compiled as a check on our data the rates, as we are best able to determine them from published custom dues, that are applicable to the items which we have used in our calculations of price differences. This information is not submitted, as we felt our statistical tables were perhaps already too detailed.

SUMMARY OF RESULTS

The following tabulation brings together the results of our detailed calculations by commodity groups of the estimated increased cost per farm in Western Canada due to tariff on imports from the United States:

Automotive equipment and fuel.....	\$ 27.19
Machinery, implements, etc.....	18.45
Building material.....	7.16
Household equipment and furniture.....	12.60
Clothing.....	24.41
Food.....	20.57
Total.....	\$110.38

There are approximately 290,000 farms in the three prairie provinces and we have estimated the added cost per farm per year as roughly \$100. Therefore, the total added cost borne by Western farmers is 29 million dollars per year.

The weight of this burden may be judged by the following comparisons: The total municipal and school tax burden in Western Canada was 44.5 million dollars in 1933. This figure includes city, town, and village taxes. It is no exaggeration to state, therefore, that the cost of the tariff, to farmers only, is equal to what the whole population of Western Canada now pays to maintain local government and education. The Searle Index calculates the average real property tax on Western farms at \$69.85, which, if compared with our estimates of an added tariff cost per farm of \$100, indicates the relative weight on rural life of local taxes as compared with the burden of national tariff policy.

It should be emphasized that the burden of the tariff on the farm population is only part of the total burden on Western Canada. According to the 1931 census, the farm population is 50.79 per cent of the total population of the prairie provinces. If the tariff burden were the same, per capita, on urban as on rural population, our estimates would have to be increased to 58 millions per year.¹⁰ But this method of allocation minimizes the extent of the burden,

10. Assuming that the urban burden is at least equal to the farm burden, we find the estimated tariff cost by Provinces, as follows: (Figures are in millions of dollars).

Province	Farm Cost	Urban Cost	Total Cost
Manitoba.....	5.5	9.5	15.0
Saskatchewan.....	13.5	9.5	23.0
Alberta.....	10.0	10.0	20.0
Total.....	29.0	29.0	58.0

since it is a recognized fact that per capita urban expenditures, on all groups of commodities but machinery, are higher than farm expenditures. There is also the similar burden on the population engaged in such primary non-urban industries as mining, fishing, and forestry, which we do not attempt to estimate here.

We are inclined to believe that our method of calculation yields a minimum estimate. No claim is made for its accuracy other than what ordinary common-sense and objectivity can provide. Every step in our calculations was made in a manner to preclude exaggeration and bias, so that if any particular item is challenged our attempted moderation elsewhere should support the validity of the total calculations.

APPENDIX

DETAILED CALCULATION OF THE TARIFF BURDEN

AUTOMOTIVE EQUIPMENT AND FUEL

From this point on the essential material is contained in the tables. The textual explanation gives a few special points to be noted in using the individual tables.

In Table 1 the item of farm trucks is excluded from our calculations of increased cost. Although equipment of this kind is rapidly becoming a necessary implement on grain farms, we do not conceive of it as being typical or customary as yet (only 3,143 farms out of a total of 57,774 farms in Manitoba reported having a farm truck in the 1936 census). We have assumed that automobiles are owned on only 50 per cent of the farms. This is based on census data of number of farms reporting cars. Estimates of expenditures on gasoline, kerosene and oil are based on farm budgets obtained by the Dominion Bureau of Statistics, the Searle Index of farm prices, and farm management surveys of the University of Manitoba.

For other sections of this study we have made adjustments in our estimates of total added cost to compensate for the inadequacy of our sample. But the number of items in this section is reasonably representative and we therefore leave the total at \$27.19.

TABLE 1.—COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR AUTOMOTIVE EQUIPMENT AND FUEL

July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
(All prices are retail cash prices except those starred*, which are from
mail-order catalogues, or those so indicated in the list)

AUTOMOTIVE EQUIPMENT AND FUEL	PRICE			ESTIMATED QUANTITIES PURCHASED ANNUALLY ^a	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada	Excess of Canadian Price		
Trucks:					
International 3/4-ton, pickup, standard equipment.....	\$735	\$ 952	\$217.00	Not considered	
International 3/4 to 1-ton, pickup, standard equipment.....	875	1,093	218.00	customary equipment	
Ford 1 1/2-ton, 157" wheel base, dual wheels, 6 tires 32 x 6, 10-ply, high pressure, chassis with cab.....	880	1,159 ^b	279.00		
Automobiles:					
Ford 2-door, standard, 85 h.p., aluminum head.....	685	871 ^c	186.00	10% for 50% of farms	\$9.30
Ford 4-door, de luxe, 85 h.p., aluminum head.....	846	1,038	192.00		
Tires and tubes:					
4.75-19 Goodyear 6-ply, heavy duty.....	11.75	16.80	5.05		
Regular 4-ply.....	9.55	14.45	4.90	5 x 40%	9.30
Speedway Regular.....	6.70	11.45	4.75		
4.75-19 tubes, Goodyear heavy duty, red.....	2.50	3.60	1.10		
Pathfinder.....	2.00	3.10	1.10	5 x 50%	2.75
Speedway.....	1.65	2.05	.40		
Storage battery, Ford standard 17-plate.....	8.95	12.25	3.30	33 1/3%	1.10
Gasoline and oil (converted to Imperial measure):					
Standard Red Crown.....	23.6	(in cents) 27.8	.042	60 gallons	2.52
Delivered large lots, tax included ^d	27.4	31.0	.036		
Filling stations, tax included ^d	88.9	80.0			
Oil (Minnesota tax, 5c per Imperial gallon).....	72.6	60.0			
Oil Iso-Vis, Marvelube, large lots.....	15.6	19.3	.037	60 gallons	2.22
Kerosene (coal oil): Perfection, large lots of 5 gal. or more.....	13.6	14.3	.007		
Distillate (tractor fuel).....	13.4	15.3	.019		
Diesel fuel.....					
Total increase.....					\$27.19

^a Estimated quantities purchased annually are calculated in two ways: first on the annual depreciation basis as for automobile (10%), or in the case of tires (5 tires, 40% depreciation); second, estimated consumption as for gasoline (60 gals.).

^b Price actually \$1,215 with spare tire; retail price spare tire \$56.00.

^c Actual price \$866 with cast iron engine heads; \$5 added to make the two cars comparable.

^d Minnesota tax, 6 1/4c per Imperial gallon; Manitoba tax, 7c per Imperial gallon.

MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES

In this section we first face the difficulty of obtaining comparable prices based on comparable quality. This has been overcome in part by comparing standard equipment sold on both sides of the line. Agents of the International Harvester Company supplied the data and checked the information on the larger and also the more common farm implements. For small tools, the retail prices supplied by dealers handling items standard on both sides of the line were checked against mail-order catalogue prices. If any error is made, we feel it is one of understatement of Canadian prices.

Our calculations of added cost omit the items of combines, tractors, and electric motors. While the added cost per unit for a combine is significant, there are approximately only ten thousand machines of this kind in the West, so that the average cost for all farms is small. Likewise, we have omitted tractors. We feel, therefore, that any overstatement in other items of this section is compensated for by omitting the aforementioned.

On this basis the total added cost per year per farm is \$14.19. If we calculate the estimated amount consumed annually for all items (regardless of whether the price is higher or lower in Canada) we obtain the approximate sum of \$250. According to the Dominion Bureau of Statistics, normal expenditures of the typical Manitoba farm for goods of this class amount to around \$325. Thus the sample of prices investigated is deficient by \$75. Assuming that the added cost on an outlay of \$250 is of the same order as an expenditure of \$325, our estimate of \$14.19 should be increased to \$18.45.

TABLE 2.—COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES
 July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
 (All prices are retail cash prices except those starred*, which are from
 mail-order catalogues, or those so indicated in the list)

MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES	PRICE		United States	Canada	Excess of Canadian Price	ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
Cream separators:							
DeLaval, No. 16, 750 lbs. capacity.....	\$	124.75	121.50	\$	3.25	10%	\$.20
I.H.C., 750 lbs. capacity.....		122.00	120.00		2.00		
Milk cans:							
10 U.S. gals.; 8 Imperial gals.		6.90	5.50		1.40	2 x 10%	.26
Same, mail order.....		5.25	3.95		1.30		
Milk pails:							
11½ Imperial qts.; 14 U.S. qts. ....		.90	1.05			10% for 50% of farms 3 x 10%	1.05
Hooded pails.....		1.25	1.55				
Gas engines, I.H.C., 1½-2½ h.p., oil bath.....		91.00	70.00		21.00	3 x 10%	1.35
Farm trucks, steel.....		47.50	42.95		4.55		
Wagon box:							
Standard size, 26" deep.....		36.00	30.00		6.00	10%	.80
Same, mail order.....		27.50	27.95				
Mowers, 5 ft., oil bath.....		111.00	103.00		8.00		
Hay rakes:							
Sulky, 10-ft., 32-tooth, I.H.C.....		57.00	56.00		1.00	10%	.10
Same, mail order.....		45.00	36.80				
Hay loader, I.H.C., without precarriage.....		127.00	115.00		12.00	(omitted)	(omitted)
Grain binders, 8', I.H.C.....		285.00	267.50		17.50	1½ x 10%	2.15
Combine harvesters with engine:							
I.H.C., 16' cut.....		2,241.00	2,050.00		191.00	10%	.27
12' cut.....		1,839.00	1,700.00		139.00		
Pickup attachment.....		170.00	125.00		45.00	10% for 50% of farms	1.50
8' cut.....		1,214.00	1,150.00		64.00		
*Drag harrows, wood frame, 150-tooth.....		26.75	24.00		2.75		
Seed drill, 20-run, double disc., I.H.C.....		238.00	258.50				
Disc harrow, 10-ft. tractor double.....		170.00	140.00		30.00		
Gang plows, I.H.C. heavy:							
9-14" bottoms.....		125.00	133.75				
3-14" bottoms.....		154.00	174.35				

Table 2 Continued on Page 28

TABLE 2.—Continued

COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES

July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba

(All prices are retail cash prices except those starred*, which are from mail-order catalogues, or those so indicated in the list)

MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES	PRICE		Excess of Canadian Price	ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada			
Tractors, I.H.C.:				(See note on page 26)	
W. 30 steel wheels	\$1,135.00	\$1,143.00			
With rubber tires	1,390.00	1,334.00			
10-20 steel wheels	1,020.00	1,011.00			
With rubber tires	1,190.00	1,204.00			
Harness:					
Without collars, with breeching, per pr.	65.00	68.00	\$3.00	5 x 10%	\$1.50
Mail order	77.70	71.20	6.50		
Collars:					
Canvas-faced, leather back	5.50	5.75	.25		
All leather	6.45	7.95	1.50	5 x 10%	.75
Iron Pipe:					
2" galvanized, per foot	.30	.42	.12		
Same, mail order	.20 $\frac{1}{4}$	.31	.10 $\frac{3}{4}$		
Binder twine: I.H.C., 600-ft., Manila, per lb.	.12	.114			
Rope:					
Manilla, $\frac{3}{8}$ ", per lb.	.28	.35	.07	100 ft.	.70
Manilla, $\frac{1}{2}$ ", per lb.	.24	.31	.07		
Poultry netting: 1"-mesh, 24"-wide, 150-ft., galvanized	4.25	5.50	1.25	25 ft.	.20
*Wire screen: 12 mesh, per sq. ft.	.04	.05			
*Barbed wire:					
80 rods, 2-point	3.55	3.75	.20	5 rods	1.00
4-point cattle wire, 12 $\frac{1}{2}$ ", galvanized, 85 lbs., per spool	2.90	3.60	.70	1 roll	.70
Galvanized farm gates, 14'	10.50	10.50			
Pitch forks:					
3-tine, high quality	1.59	1.35			
Same, mail order	1.10	1.08			
Hoes:					
7"-blade	1.00	.75			
Same, mail order	.89	.80			

Table 2 Continued on Page 29

TABLE 2.—*Concluded*

COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES
July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
(All prices are retail cash prices except those starred*, which are from
mail-order catalogues, or those so indicated in the list)

MACHINERY, IMPLEMENTS, TOOLS, AND SUPPLIES	PRICE		Excess of Canadian Price	ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada			
Scythe:					
Swath.....	\$1.75	\$1.85			
Blade.....	1.95	1.60			
Scythe:					
*Swath.....	1.49	1.60			
*Blade.....	1.35	1.30			
Scoop shovel:					
Grain, large size.....	2.25	1.75			
Same, mail order, 7½, 8 lbs.....	1.39	1.50			
Steel shovel:					
Round point, long handle.....	1.65	1.35			
Same, mail order.....	.89	.80			
Axe, with handle.....	1.75	1.90			
Lead, arsenate, 5-lb. pkg., per lb.....	.15	.20	\$.05		
Paris green, per lb.....	.50	.30			
Grind stones, with stand, foot operating.....	8.25	10.50	2.25	10%	\$.22
Rubber belting:					
3", 3-ply, red, per ft.....	.16	.22	.06	20 ft.	1.20
Same, mail order, 4-ply, red, per ft.....	.20	.30	.10		
*Stock tank, 8' x 2' x 2', 22-gauge, galvanized.....	8.85	8.85			
Sweat pads, all cloth.....	.55	.64	.09	8 x 33½%	
*Bee supplies:					
5 K.F. hives, metal covers.....	10.45	10.95			
Wax foundation, medium brood, wired, 7 sheets per lb., per 5-lb. package.....	2.65	2.70			
Electric motor, ½ h.p., A.C.....	8.40	21.50	13.10		
*Electric (farm) light plant, 110 Volt, A.C.: (Kato Light Jr., 70 lbs., 300 watts, Canada, Powermaster, 150 lbs., 350 watts, U.S.)	115.00	122.50	7.50		
Total added cost on a budget of \$250 per annum.....					\$14.19 per farm
Total added cost on a normal budget of \$325.....					\$18.45 per farm

BUILDING MATERIAL

It will be observed from the data on building material that Manitoba lumber prices are in general lower than Minnesota prices. We assume this is also true for Saskatchewan and Alberta. For items which enter into the upkeep of farm buildings, such as paint, increased costs are significant.

The normal budget for this section is estimated at \$86 per annum. Since our sample is quite comparable no adjustment is made in the final estimate of \$7.16. In omitting the added costs for sashes and doors compensation is made for any possible overestimating in the other items upon which calculations depend.

TABLE 3.—COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR BUILDING MATERIAL

July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
(All prices are retail cash prices except those starred*, which are from mail-order catalogues, or those so indicated in the list)

BUILDING MATERIAL	PRICE			ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada	Excess Canadian Price		
Dimension lumber, 2" x 4" and 2" x 6", U.S. Western Pine, Canadian Spruce, per m.b.m.	\$43.00	\$40.00			
Rough boards:					
1 x 12 select sizes	52.00	48.00			
Random widths	42.00	40.00			
Shiplap	45.00	43.00			
Fir flooring	78.00	63.00			
Drop siding, 1" x 6" pine	45.00	43.00			
Bevel siding, cedar, 6" width	58.50	54.00			
Insulating board, 3/4", per square	58.50	72.00	\$13.50		
Shingles, cedar	4.60	4.80	.20	2 bundles	\$.40
Portland cement, 94-lb. sack .....	.70	.90	.20	2 sacks	.40
*Roofing, composition, 45 lbs., per roll	1.60	2.35	.75	2 rolls	1.50
Corrugated galvanized roofing, 28 gauge, 6' x 2 1/2' .....	.78	.92	.14		
Brick, common U.S. Redcliff red No. 1, Canada 1000	27.00	35.00	8.00		
Laths, 4', bunch of 50 .....	.45	.50	.05		
Posts, cedar .....	.14	.15	.01	50	.50
Nails .....	.07	.07			
Fence staples .....	.84	1.05	.21		
*Barn sash, 4 light 2 1/4" x 2 1/4" .....	.80	1.00	.20		
*Cellar sash, 3 light 2' 10 1/2" x 1' 6"	1.62	1.90	.28		
*House windows, 2' 0" x 4' 6", 17 lbs.	2.92	3.70	.78		
*Door, 5-panel, first quality, 2' 6" x 6' 6" x 1 3/8"	2.50	2.40			
Post hole auger, 7'	1.60	1.70		20%	.06
Wire-stretcher tackle	1.35	1.65	.30		
House paint, high quality, per gal.	4.06	4.40	.34	4 gal.	2.00
Barn paint, red, per gal.	2.06	2.75	.69	5 gal.	2.30
Shingle stain, per gal.	1.94	2.40	.46		
Estimated total added cost per farm (no adjustments)					\$7.16

HOUSEHOLD EQUIPMENT AND FURNITURE

The task of comparing prices of household equipment items is most difficult. Housefurnishings and equipment vary greatly in quality, and the large list of small low-cost items that go into a good sample would have made the work of comparing prices and qualities in retail stores most complicated. Our list became, therefore, largely a comparison of catalogue prices on what were considered representative items, checked against the data obtained from the field study. We may add that the tariff on furniture is substantial and we believe we have understated its burden in our calculations.

It may be stated in passing that the incidence of the burden for this class of materials, as for farm implements, will be felt to a greater extent as purchasing power increases on the prairies, and the demands of obsolescence and replacement become effective.

A greater adjustment for inadequacy of sample has been made here than for other classes of material.

TABLE 4.—COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR HOUSEHOLD EQUIPMENT AND FURNITURE
July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
(All prices are retail cash prices except those starred* which are from
mail-order catalogues, or those so indicated in the list)

HOUSEHOLD EQUIPMENT AND FURNITURE	PRICE			ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada	Excess Canadian Price		
Laundry stove.....	\$ 5.35	\$ 9.25	\$ 3.90		
Coal stove: Canada wt. 410 lbs.; U.S. wt. 590 lbs.....	59.95	61.00	1.05	10%	\$.10
Perfection, 3-burner kerosene stove.....	26.00	25.00			
	(all enamel)	(part enamel)			
Wash boilers, all copper, 14½ U.S. gal.....	4.79	6.35	1.56	10%	.15
*Kitchen cabinet.....	29.65	31.50	1.85	7%	.12
Kitchen table.....	6.48	7.50	1.02	7%	.07
Cistern pump, 3½-inch cylinder.....	2.15	3.25	1.10	10%	.10
Washing machines, standard make, gasoline engine:					
First model.....	84.50	164.00	79.50	10% x 20% of farms	1.60
Second model.....	119.50	189.00	69.50		
*Bed spring, double bed, sagless.....	6.95	7.50			
*Mattress, 54-inch, cotton and woolwood fibre.....	8.95	8.50			
Linoleum rugs, standard make, 9 x 12.....	7.95	8.45	.50	20%	.10
Electric light bulbs:					
40 watt.....	.15	.20	.05		
75 to 100 watt.....	.20	.30	.10		
Lamp cord, ordinary, per ft.....	.01½	.02½	.01		
Estimated total added cost.....					\$ 2.24
Total expenditure for above list					(approximate).....
Normal expenditure.....					\$16.00
Adjustment for inadequacy of our					\$90.00
sample brings estimated added					
annual cost to.....					\$12.60

FOOD

The items in the food section permit of fairly accurate comparison. There are, however, only six commodities in our list which yield significant price differentials, and none of them, except oranges, may be considered as a luxury food.

The full burden of the tariff on fresh fruits and vegetables is not measured in these calculations. But since the added cost of these items to urban Western Canada is, we judge, quite significant, we are convinced that our estimate of the total added cost of food is far from being an overstatement.

TABLE 5.—COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR FOOD

July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
(All prices are retail cash prices except those starred*, which are from
mail-order catalogues, or those so indicated in the list)

Food	Price			ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada	Excess Canadian Price		
Sugar, per 100 lbs.	\$5.50	\$6.65	\$1.15	300 lbs.	\$3.45
Flour, 98 lbs.	4.25	3.50			
Oatmeal:					
3-lb. box.	.20	.25			
Bulk, per lb.	.05	.07	.02		
Bacon, sliced, per lb.	.55	.48			
Beans, dry.	.10	.08			
Prunes:					
60-70 size.	.08	.11½	.03½		
40-50 size.	.10	.12½	.02½		
Tomatoes, canned, No. 2 can	.08½	.10½	.02½	30 lbs. 15 cans	.75 .37
Corn, canned, No. 2 can	.15	.15			
Rice, per lb.	.08	.08			
Coffee:					
Standard brand, per lb.	.28	.45	.17		
Bulk, per lb.	.25	.40	.15		
Tea, black, per lb.	.59	.51		12 lbs.	1.80
Evaporated apples, per lb.	.20	.16			
Raisins, per lb.	.10	.16	.06	25 lbs.	1.50
Raspberry jam, 4 lbs.	.76	.68			
Salt:					
3½-lb. bag.	.11½	.09			
7-lb. bag.	.17½	.15			
Pepper, 2-oz. can.	.08	.07½			
Oranges.	.39	.45	.06	6 doz.	.36
Lemons.	.45	.40			
Stock salt:					
Block, 50 lbs.	.55	.65	.10		
Block, 100 lbs.	1.10	1.35	.25		
Starting chicken feed, 100-lb. bag	3.50	3.90	.40		
Estimated total added cost.....\$ 8.23					
Total annual expenditure					
on above items (approximate) ..\$100.00					
Normal expenditure.....\$250.00					
Adjustment for inadequacy of our					
sample brings total added cost to \$ 20.57					

CLOTHING

In estimating prices and qualities of clothing, Canadian prices were given the benefit wherever comparability seemed in doubt. For instance, the work shirts priced in the United States at 75 cents were, in our opinion, of considerably better quality than the Canadian shirt similarly priced.

It will be further observed that no calculations were made on prices of woollen goods. Since this study compares only United States and Canadian prices, it may be argued with some validity that for woollens, which are largely imported from Great Britain, a significant added cost is missed. In 1936 Canada imported approximately 20 million dollars of wool and its products from the United Kingdom, paying tariff duties amounting to over 4 millions of dollars. In the same year only 271 thousand dollars of wool products were imported from the United States. Thus, our calculations give a sum much smaller than the real burden. The same is true of cotton goods. Also our statement omits many significant items of cotton dress goods, etc., price differences on which we did not feel capable of adequately appraising. The items we do include are, in our judgment, fairly comparable in quality.

TABLE 6.—COMPARISON OF CANADIAN AND UNITED STATES PRICES FOR CLOTHING

July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba
 (All prices are retail cash prices except those starred*, which are from
 mail-order catalogues, or those so indicated in the list)

CLOTHING	PRICE			ESTIMATED QUANTITIES PURCHASED ANNUALLY	ESTIMATED INCREASED COST PER FARM PER YEAR
	United States	Canada	Excess Canadian Price		
Sheepskin coats.....	\$14.95 (50")	\$14.50 (45")			
Overalls, high quality, 8-oz., sanforized.....	1.69	1.95	\$.26	2 pr.	\$.52
Smocks.....	1.69	1.95	.26	2 pr.	.52
Socks:					
Woolen.....	.50 (80% wool)	.50 (all wool)			
Cashmere.....	.45	.55	.10	2 pr.	.20
Wool underwear, men's.....	3.95	3.25			
Fleece-lined underwear.....	1.35	1.55			
Gloves, horsehide.....	.75	.75			
Mitts:					
Horsehide.....	.75	.95	.20	2 pr.	.40
Woolen.....	.35 (50% wool)	.35			
Shirts, suede cloth-flannel.....	.89	1.50			
Work shirts.....	.75	.75			
Rubber boots:					
Knee length.....	2.49	2.50			
Mail-order, light.....	2.19	2.50			
Mail-order, heavy.....	2.59	3.25			
Overshoes, 4-buckle, cloth and rubber.....	1.98	3.29	1.31	1 pr.	1.31
Work shoes, all leather, high quality.....	2.95	3.50	.55	1 pr.	.55
Linen thread, 100-yd. spool.....	.10	.10		10 spools	.25
Cotton thread, 200-yd. spool.....	.05	.07 1/2			
Women's wool gloves.....	.69	.75			
Women's shoes.....	2.50	2.85	.35	1 pr.	.35
Women's silk hose, service weight.....	.79	.75			
Women's cashmere hose: wool, rayon and cotton.....	.25	.35	.10	3 pr.	.30
Boys' shoes, heavy.....	2.25	2.75	.50	1 pr.	.50
Bath towels, Turkish, 20" x 40".....	.25	.35	.10	4 pr.	.40
Unbleached sheeting:					
Light, 72", per yd.....	.26	.35	.09	10 yds.	.90
*Heavy, 72", per yd.....	.39	.50	.11	5 yds.	.55
*Medium, 72", per yd.....	.30	.43			
Canvas, 8-oz. wt., per yd.....	.19	.30			
Corduroy, regular finish, 36" wide.....	.49	.65			

Estimated total added cost\$ 8.30
 Total annual expenditure on above
 items (approximate).....\$ 85.00
 Normal expenditure.....\$250.00
 Adjustments for inadequacy of our
 sample brings total added cost to \$ 24.41

EFFECTS OF FEDERAL TARIFF POLICY

VALUE OF IMPORTS, DUTY COLLECTED AND EFFECTIVE RATE OF DUTY PAID FOR SOME MAJOR ITEMS OF CONSUMPTION, 1936

COMMODITY	TOTAL VALUE OF IMPORTS	AMOUNT DUTY COLLECTED	EFFECTIVE AD VALOREM RATE
	\$	\$	%
Fresh Fruit.....	12,897,652	2,522,983	19.56
Prunes.....	787,459	193,142	24.53
Raisins.....	3,057,640	322,320	10.54
Total Dried Fruits.....	5,496,178	867,421	15.78
Jelly, Jams, etc.....	65,937	16,722	25.36
Bananas.....	1,767,092	230,660	13.05
Oranges.....	5,772,238	1,069,061	18.52
Total Fruits.....	20,298,885	3,842,885	18.93
Total Vegetables, Fresh.....	4,186,816	1,395,899	33.34
Corn, Canned.....	2,183	1,120	51.31
Tomatoes, Canned.....	67,182	12,734	18.95
Total Canned Vegetables.....	232,591	58,770	25.27
Total Vegetables, Fresh, Canned, etc.....	4,773,138	1,536,316	32.19
Rice.....	314,477	93,371	29.69
Corn Meal.....	30,805	1,496	4.86
Total Prepared Food.....	779,842	89,924	11.53
Vegetable Oils.....	717,275	118,003	16.45
Sugar and its Products.....	19,242,458	3,248,975	16.88
Sugar (No. 16, D.S., in Color).....	5,487,623	1,046,504	19.07
Total Cocoa and Chocolate.....	1,807,704	219,128	12.12
Total Coffee.....	3,573,157	537,954	15.06
Total Tea.....	8,153,748	1,489,968	18.27
Total Agricultural and Vegetable, Mainly Food.....	72,143,851	12,634,953	17.51
Total Alcoholic Beverages.....	8,392,380	5,240,937	62.45
Plants, Shrubs, etc.....	844,593	147,466	17.46
Rubber Boots.....	345,317	8,525	2.47
Rubber Tires.....	152,010	48,930	32.19
Rubber Tubes.....	7,622	2,426	31.83
Total Rubber and Its Products.....	9,400,819	460,205	4.90
Total Seeds.....	1,780,603	165,213	9.28
Tobacco, etc.....	2,481,289	198,202	7.99
Total Agricultural and Vegetable Products other than Food.....	38,198,681	6,915,162	18.10
Total Fishery Products.....	1,890,462	320,347	16.95
Total Furs.....	6,022,268	170,709	2.83
Total Leather, Unmanufactured.....	3,132,509	515,312	16.45
Total Boots and Shoes.....	677,162	215,411	31.81
Harness and Saddlery.....	95,599	20,343	21.28
Leather Belting.....	60,801	13,035	21.44
Mitts and Leather Mittens.....	4,030	1,419	35.21
Total Leather Manufactured.....	1,898,436	526,265	27.72
Total Leather and Manufactures of Leather.....	5,030,945	1,041,578	20.70
Batts, Batting and Wadding of Cotton.....	65,570	14,597	22.26
Sewing Cotton, Thread on Spools.....	8,956	2,319	25.89
Woven Fabrics Wholly of Cotton, not bleached, mercerized nor coloured.....	1,398,396	407,585	29.15
Canton Flannels, Sheeting, Napped or Unnapped and Pillow Cotton; Plain Shirts, Cambrics, Longcloths, Nainsooks, Flannelettes and Saxones, not coloured.....	198,028	44,448	22.45
Towelling, in the Web, not coloured.....	4,309	1,102	25.57
Woven Fabrics wholly of Cotton, Bleached or Mercerized, n.o.p., not coloured.....	928,676	227,930	24.54
Woven Fabrics of Cotton, Printed, n.o.p.....	1,488,849	393,736	26.45
Woven Fabrics of Cotton, Piece Dyed, n.o.p.....	2,662,660	745,187	27.99
Shirts, not knitted, Cotton.....	19,841	6,112	30.80
Underwear, Cotton, Knitted.....	34,247	8,354	24.39
Cotton Clothing, n.o.p.....	473,274	142,454	30.10
Cotton Sheets and Pillowcases, plain.....	250,472	73,338	29.28
Towels, Cotton.....	382,325	116,662	30.51
Total Cotton and Its Products.....	33,572,292	3,480,893	10.37
Total Silk and Its Products.....	8,066,547	887,180	11.00
Wool Yarns composed wholly or in part of hair but not containing silk nor artificial silk, n.o.p.....	350,517	76,410	21.80

EFFECTS OF FEDERAL TARIFF POLICY

VALUE OF IMPORTS, DUTY COLLECTED AND EFFECTIVE RATE OF DUTY PAID FOR SOME MAJOR ITEMS OF CONSUMPTION, 1936—*Continued*

COMMODITY	TOTAL VALUE OF IMPORTS	AMOUNT DUTY COLLECTED	EFFECTIVE AD VALOREM RATE
	\$	\$	%
Overcoatings.....	733,315	307,929	41.99
Tweeds.....	1,254,583	521,009	41.53
Worsteds and Serges.....	4,027,717	1,513,406	37.57
Carpets, Axminster, in squares.....	62,617	26,085	41.66
Socks and Stockings, wholly or in part of Wool.....	364,090	162,210	44.55
Underwear, Knitted, Wool.....	193,440	45,059	23.29
Clothing, Women's and Children's Outer Garments, Wool.....	231,627	87,867	37.93
Total Wool and Its Products.....	24,460,901	4,660,727	19.05
Doors of Wood.....	1,131	274	24.22
Furniture, House, Office, Cabinet or Store Furniture of wood or other material, n.o.p., in parts or finished.....	564,988	188,790	33.41
Pig Iron, for use exclusively in the manufacture of Agricultural Implements.....	113,266	15,009	13.25
Ingots, Cogged, Blooms, Slaks and Billets, n.o.p., Sheet Bars of iron or steel by whatever process made, n.o.p.....	171,228	24,647	14.39
Woven or Welded, Wire Fencing of iron or steel, Wire Fencing of iron or steel, coated or not, n.o.p.....	7,518	440	5.85
Woven Netting of iron or steel, coated, made from Wire of 17 gauge or heavier, with meshes not smaller than one inch and not larger than two inches, with specially strengthened joints, when for use exclusively on fur farms.....	66,483	9,972	15.00
Engines, Automobiles and Complete Parts, n.o.p.....	5,249,292	1,403,487	26.74
Steel Bowls for Cream Separators.....	7,454	1,864	25.01
Cream Separators and Complete Parts, n.o.p.....	306,541	61,389	20.03
Mowing Machinery and Parts.....	60,452	13,184	21.81
Drills, Seed, Garden Seeders and Parts.....	71,653	10,315	14.40
Harrows, Discs and Parts.....	17,815	4,111	23.08
Hoes.....	3,367	471	13.99
Fanning Mills, Pea Viners and Corn Husking Machines and Parts..	15,311	3,532	23.07
Total Farm Implements and Machinery.....	6,182,218	372,359	6.02
Total Hardware and Cutlery.....	2,412,822	527,983	21.88
Automobiles for conveying passengers only, n.o.p., valued at retail, when new with Standard Equipment complete, at not more than \$1,200 each; Chassis for same.....	1,961,806	338,514	17.26
Automobiles for conveying passengers only, n.o.p., valued at retail at place of production when new with Standard Equipment com- plete at more than \$1,200 each, but not more than \$2,100 each; Chassis for same (from June 1, 1931).....	129,923	30,953	23.82
Total Iron and Its Products.....	114,253,715	18,588,206	16.26
Batteries, Electric, Storage, composed of plates measuring not less than 11 x 14 inches and not less than 3/4-inch in thickness, complete Parts thereof and Storage Batteries, n.o.p.....	134,556	30,373	22.57
Lamps, Electric, Incandescent, Metal Filament.....	134,434	40,161	29.87
Electric Light Fixtures and Appliances, n.o.p., and Complete Parts..	251,484	74,279	29.54
Total Non-Ferrous Metals and Their Products.....	33,685,919	5,085,565	15.10
Total Coal and Its Products.....	38,197,232	7,823,982	20.48
Total Glass and Glassware.....	5,798,850	1,185,257	20.44
Crude Petroleum, not in its natural state, 7.250 S.G., or heavier at 60° temperature when imported by Oil Refineries to be refined in their own factories.....	62,016	15,244	24.58
Petroleum (not including crude petroleum imported to be refined, or illuminating or lubricating oils) .8235 S.G., or heavier, at 60° temperature. (Fuel Oil).....	1,137,824	155,938	13.70
Coal Oil and Kerosene, lighter than .8235, S.G., at 60° temperature, n.o.p.....	108,459	29,518	27.22
Engine Distillate, lighter than .8235, S.G., at 60° temperature..	8,348	2,061	24.69
Gasoline, lighter than .8235 S.G. at 60° temperature.....	1,621,719	465,358	28.70
Lubricating Oil, composed wholly or in part of Petroleum and costing less than 25 cents per gallon.....	1,514,661	257,884	17.03
Lubricating Oils, n.o.p.....	1,171,272	229,574	19.60
Axle Grease.....	211,836	40,938	19.33
Total Petroleum, Asphalt and Their Products.....	44,489,337	1,407,862	3.16

EFFECTS OF FEDERAL TARIFF POLICY

VALUE OF IMPORTS, DUTY COLLECTED AND EFFECTIVE RATE OF DUTY PAID FOR SOME MAJOR ITEMS OF CONSUMPTION, 1936—*Continued*

COMMODITY	TOTAL VALUE OF IMPORTS	AMOUNT DUTY COLLECTED	EFFECTIVE AD VALOREM RATE
	\$	\$	%
Grindstones, not mounted and not less than 36 inches in diameter . . .	140,043	20,666	14.76
Lead, red, dry and orange mineral	35,079	1,450	4.13
Lead, white, dry	1,071	317	29.60
Lead, white, ground in oil	1,416	404	28.53
Zinc, white	475,356	11,606	2.44
Liquid Fillers, Anti-Corrosive and Anti-Fouling Paints, and Ground and Liquid Paints	217,575	59,778	27.47
Paints and Colours Ground in Spirits and All-Spirit Varnishes and Lacquers	46,083	18,180	39.45
Varnish, Lacquers, Japans, Japan Driers, Liquid Driers, and Oil Finish, n.o.p.	174,704	66,717	38.19
Total Paints, Pigments and Varnishes	3,620,464	392,140	10.83

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MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part V.

The Effects of Declining Income

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PART V

THE EFFECTS OF DECLINING INCOME*

SECTION A. SUMMARY OF THE EFFECTS OF DECLINING INCOME UPON THE BURDEN OF DEBT AND TAXATION

This section summarizes some of the effects of the decline in income of the people of Manitoba that are considered in extended detail in the next section. It is the great decline in income that has occurred since 1926 that has created many of the problems that face all governments in Manitoba. The decline in income has been persistent in all the years since 1928 and particularly severe since 1930.

Manitoba has within its borders 6.75 per cent of the Canadian people, but since 1928 its share of the national income has averaged slightly less than 5 per cent and in 1935 was less than 4.50 per cent.¹ This share of the income in 1935 was but two-thirds of the share of population. Stated the other way around, Manitoba has a share of the population of Canada that in 1935 was one-half again as large as its share of the income of the people of Canada. Briefly, the significance of the difference between these two figures is that the demand for expenditures is determined by the *numbers* of our people, but our taxable capacity is determined, not by the number of our people, but by their income. Our taxation when measured on a per capita basis is substantially in line with other provinces, but when that taxation is measured as a proportion of the income of our people it is found to be much higher than for the rest of Canada. In other words, when our per capita income falls by one-third as compared with the rest of Canada, the burden of taxation on that reduced income for the same standard of services is fifty per cent greater.

But first let us compare the trend of income for Manitoba with that for Canada as a whole. The income of the Canadian people in 1935 was only two-thirds of the income in 1926. If we express this decline by the use of index numbers, using 1926 as 100, we find that our income fell to 66 in 1935. Stated in another way, this means that for every \$100 of income that was received by Canadians in 1926 only \$66 was received in 1935. But in Manitoba the decline was from \$100 in 1926 to \$49 in 1935. No other province except Saskatchewan suffered as great a decline in income. In Ontario and Quebec, for example, the decline in income was only to \$76 and \$70, respectively.²

*This submission was prepared by A. R. Upgren with the assistance of H. C. Grant. Tables by J. E. Chernick.

1. See Section B of this submission, Table 1.

2. *Ibid.*, Table 2.

In 1926 agriculture was the pre-eminent productive activity in Canada. In that year the value of agricultural production was 1400 million dollars. In comparison, in the same year the value of manufacturing production was 1200 million dollars. By 1935 agriculture, by a wide margin, had lost its place of leadership. In that year the value of its production had declined to 623 million dollars. In contrast the income from manufacturing had only declined to 950 million dollars.³ Using index numbers to compare these large figures, we may say that for every \$100 of Canadian agricultural production in 1926 there was only \$44 in 1935. In contrast, \$79 was received from manufacturing in the latter year.⁴

During this period, in which the value of agricultural production of all Canada declined from \$100 to \$44, the decline for Manitoba was to a lower figure of \$29. Thus, we may say that, on the average, the farmers of Canada lost \$56 out of every \$100 of their 1926 income, whereas in Manitoba they lost \$71. The loss to Manitoba farmers was therefore greater than in any other province in this nine-year period. Of all the major industries in Canada, agriculture suffered by far the most severely, and the greatest decline in agriculture was in Manitoba and in Saskatchewan. In contrast to the decline from 100 to 44 in all Canadian agriculture from 1926 to 1935, the decline in all Canadian manufacturing was only to 79; in mining to 99; in forestry to 73.⁵

It will be recalled that taxes in Manitoba *when expressed in relation to its population* have been closely in line with the average for all Canada. The measurements, for example, show that in 1933 average taxes, municipal and provincial, in *all* the provinces of Canada were equal to \$32.32 for every person in the Dominion. In Manitoba, however, they were \$33.55 or only about 3 or 4 per cent above the national average. This amount was substantially below the figure for the two large provinces.⁶

We now wish to express this average tax for each person as an average proportion of income. In so doing we find that this per capita tax burden—which for the people of the province of Manitoba is almost exactly at the national average—becomes a high tax burden when compared with the income of our people. Our total taxes (again including both municipal and provincial taxes) of \$33 per capita, when compared with the income of the people of Manitoba, require a proportion of their income that is very substantially above the average for Canada. The figures show that in all provinces of Canada municipal and provincial taxes taken together absorbed a little more than 10 per cent of the income of the Canadian people. Because of the great decline in income in Manitoba its taxes (though closely equal to the average for Canada on a per capita basis) when expressed as a proportion of income required slightly more than 14 per cent of the income of our people. In brief, it is because of the decline in the income of Manitoba that our per

3. *Ibid.*, Table 3.

4. *Ibid.*, Table 4.

5. *Ibid.*, Table 5.

6. *Ibid.*, Table 6.

capita taxes of \$33 amount to 14 per cent of the income of our people, whereas the average per capita taxes for Canada of \$32 amount only to 10 per cent of the income of the people of the Dominion.⁷

The average per capita debt of all provincial governments in Canada in 1926 was \$48.22. In Manitoba in that year the net per capita debt of the province was \$62.57. Thus we observe that in 1926 the provincial debt for each person in Manitoba was about \$14 higher than the average for all the provinces in Canada. But by 1935 the average total debt of all provinces had increased to \$103.67 for every person in Canada, while in Manitoba the increase was only to \$102.35. Thus it will be seen that in the years since 1926 the per capita debt of provincial governments in Canada more than doubled, but in Manitoba the increase was only two-thirds as great as for the Dominion as a whole.⁸

If we express this increase in per capita debt by means of index numbers, we find that for every \$100 of the total net debt of provincial governments in all Canada in 1926 there was, by 1935, \$249 of provincial debt. In Manitoba, however, the increase in the total net provincial debt was only from \$100 to \$182. Thus we find Manitoba to have been the only province in Canada whose debt did not double in this period. In fact, its total debt increased relatively less than for any other Canadian province.⁹

If we next consider the total net debt of the provincial government combined with the total debt of all the municipalities within our province, we find that for every \$100 of such debt for all the provinces of Canada in 1926 there was \$164 of debt in 1934. But in Manitoba there was only \$132. In fact, in Manitoba the total municipal and provincial indebtedness increased only one-half as much as in all Canada. In other words, where provincial and municipal debt in Manitoba increased only by one-third, it increased by one-half or more in every other Canadian province.¹⁰ These comparisons have all been on a per capita basis. We now make them in terms of income.

When we consider the net debt of the provinces alone as a percentage of income, we find that the debt of all of the provinces in 1935 was equal to 29 per cent of the income of the total Canadian population. In Manitoba, however, where debt had increased relatively much less than in any other province, the debt in 1935 was nevertheless equal to 42 per cent of its income.¹¹

From 1926 to 1933 the total of *provincial and municipal debt* in all of Canada increased from \$160 to \$215, an increase of \$55. In Manitoba the

7. Figures on the percentage of income that provincial and municipal taxes represent are given in Table 7 of Section B. In these calculations of taxes we have considered municipal and provincial taxes combined, for the reason that these are the taxes that are paid by our people. The same calculations can be made for provincial taxes alone but such a comparison is influenced by the fact that in some provinces municipalities undertake functions that are carried on in other provinces by the provincial governments.

8. Section B, Table 8.

9. *Ibid.*, Table 9.

10. *Ibid.*, Table 10.

11. *Ibid.*, Table 11.

increase for each person in the province in the same period was only \$40. Thus we see that while provincial and municipal debts in all Canada increased, the increase in the case of Manitoba was only four-fifths as great as that for the Dominion as a whole.¹²

We have shown that while Manitoba's provincial and municipal debt increased only from \$100 in 1926 to \$132 in 1934, in all of Canada provincial and municipal debt increased twice as fast, or from \$100 to \$164. But *in terms of income*, the more greatly increased total municipal and provincial debt of all Canada was equal in 1933 to less than 70 per cent of the national income. Manitoba's smaller increased total municipal and provincial debt in the same year was equal to 98 per cent of the income of her people.¹³

In summary, we have shown that the net debt of Manitoba, as well as the combined provincial and municipal debt, increased far less than for any other province in Canada. Yet, despite this fact, as a result of the much greater decline in the income of the people of Manitoba, this small rate of increase was greater for Manitoba (and Saskatchewan) than for any of the other provinces of Canada when measured in relation to the income of the people.

12. *Ibid.*, Table 12.

13. *Ibid.*, Table 13.

SECTION B. THE EFFECTS OF DECLINING INCOME UPON THE BURDEN OF DEBT AND TAXATION

INCOME OF THE PEOPLE OF MANITOBA IN COMPARISON TO THE NATIONAL INCOME

The burden of debt and taxation may be measured by the percentage of the total income which they consume. The burden of taxation and debt may also be measured on a per capita basis. The burden of debt is also frequently measured in a third way—by expressing it in ratio to total wealth. The measurement of debt in relation to total wealth requires not only measurement of debt, but also measurement of the amount of wealth. The first is readily available; the latter, for reasons considered below, is not available in a form as satisfactory as income data. Consequently, comparisons of debt with the total wealth are not made in this review of taxation and debt.

We may consider briefly the choice between measuring taxation and debt on a per capita basis and on the basis of relation to income. For one thing, the measurement of taxes per capita, if the measurement is to be an accurate expression of the tax burden, assumes that taxes fall equally upon every member of the population. But since taxes are paid out of income, a far more accurate measure of the burden of taxation is available if the comparison is made on the basis of the proportion of income collected in taxes. The ability of individuals to pay taxes is dependent upon their incomes. Expenses of government, as well as all other expenses, in reality can be paid only out of income. For this reason we turn next to the measurement of the income of the people of Manitoba and the national income of Canada.

In Canada the total income of the people is estimated by the Dominion Bureau of Statistics on the basis of available information on net and gross production. Production is often defined as the process of growing crops, or extracting minerals, or catching fish, or any creation of so-called "form utilities." When defined in this way, productive income does not include income derived from transportation, merchandising, or the creation of "place," "time," and "possession" utilities. Nor does it include personal and professional services. But people engaged in service enterprises are no less productive than those engaged in direct production. This may be simply illustrated by pointing out that the growing of potatoes in a region far from consuming markets is only one step in the productive process. That process is by no means complete without transportation. In fact, the people of Canada have had much experience with the importance of transportation, for ability

to produce in many areas is overwhelmingly dependent upon ability to transport. (It will be observed that we use as interchangeable "total production" and "total income."¹)

Therefore, in determining the total income of the people of Canada, the Dominion Bureau of Statistics adds to the total amount of net production the proportion of that value contributed by those who are engaged in service enterprises. This proportion is determined by the proportion of the number gainfully employed in service enterprises to the number engaged in direct production.² In our calculations of the total income of the several provinces we have followed the method employed by the Dominion Bureau of Statistics.

For example, in the Survey of Production in the Canada Year Book for 1936 the total net production of commodities was placed at \$2,062,000,000 for the year 1933. In this total net production 2,455,591 persons were directly gainfully occupied; an additional 1,472,000 were gainfully occupied in service enterprises, which include, among others, transportation, trade, and finance. In arriving at the total net income, about two-thirds is added to the total net production, since this is the proportion between the 1,472,000 persons gainfully occupied in service activities and the 2,455,591 persons gainfully occupied in direct production. The amount of the total income in 1933 was placed by the Dominion Bureau of Statistics at \$3,340,000,000.³

Because of the simplicity of this method of determining the total national income, or the total value of all production, we have used it to arrive at the income of the people of each of the provinces. The data used in these calculations are given in Table A in the Appendix; this table provides data for 1931 on the numbers of gainfully employed in Canada, their distribution in each of the provinces, and the numbers engaged in production and in "service." The income for Canada and the calculated income for each of the provinces is available for the years since 1926; therefore the data of the 1931 census serves satisfactorily, being a mid-point in the years for which income has been determined. The census for 1936 (or even 1926), if employed, would not

1. In this we neglect considerations of the adequacy of "certain deductions required to maintain the national productive equipment in an efficient state" (Canada Year Book, 1937, p. 866). These deductions are not considered in the published data of the Dominion Bureau of Statistics. Nor have we allocated to the provinces the net deduction made by the Dominion Bureau of Statistics for "outward balance of interest" amounting to \$195,000,000 for Canada. The allocation of these items, if possible, would make no perceptible change in the results that have been secured.

2. It should be pointed out that the data published in the Canada Year Book are constantly revised. We have attempted to consider revisions, although the extent of changes is in no way sufficient to change the conclusions we have reached. Such slight discrepancies as have been found to exist are indicated by notes to appropriate tables. Account has been taken in the data given for 1931 and subsequent years of changes due to corrections in production figures that result from the availability of census materials for 1931.

3. Canada Year Book, 1936, pp. 884-86. The figure for the national income for 1933 was placed at \$3,193,000,000 in the Year Book for 1937 (p. 866), a change of less than 5 per cent. There are slight differences between our results for earlier years and the published data, but these are the results of "rounding off" and certain other unexplained adjustments in the published data. Our detailed calculations given in Appendix Table B are based upon the methods used by the Dominion Bureau of Statistics. Since our calculations have been made, the data covering production, which we took from official sources, have been changed in accordance with Resolution 23 adopted by the Conference of British Commonwealth Statisticians, 1935. The changes do not in any way affect the use that we have made of income data for Canada.

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substantially change our results. Table B in the Appendix gives the net value of production for the Canadian provinces from 1926 to 1935. It considers the totals for primary and secondary production taken together, service production, and total net production; the latter is the income figure we have been seeking.

Table 1 below furnishes the percentages of total population of Canada residing in the various provinces in 1931 and the total production or income of the people of each province for the years 1926 to 1935.⁴ It will be

TABLE 1.—PERCENTAGE DISTRIBUTION OF NATIONAL INCOME BY PROVINCES, 1926 TO 1935,
COMPARED WITH DISTRIBUTION OF POPULATION BY PROVINCES IN 1931

Year	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskat- chewan	Alberta	British Columbia
PERCENTAGE DISTRIBUTION OF POPULATION, CENSUS OF 1931									
	0.85	4.94	3.94	27.70	33.07	6.75	8.88	7.05	6.69
PERCENTAGE DISTRIBUTION OF INCOME									
1926.....	.59	3.22	2.33	24.41	38.85	5.96	8.51	7.44	8.69
1927.....	.50	2.89	2.08	24.16	38.93	5.39	9.05	8.84	8.16
1928.....	.46	3.30	1.93	24.28	39.32	5.98	8.71	7.52	8.50
1929.....	.48	3.06	2.04	26.93	42.92	4.87	5.20	5.42	9.08
1930.....	.38	3.07	2.05	26.77	43.06	4.94	4.79	6.11	8.83
1931.....	.36	3.40	2.24	27.29	43.39	4.90	3.69	6.54	8.19
1932.....	.40	3.15	2.38	26.88	43.02	4.96	4.83	6.73	7.65
1933.....	.47	3.29	2.18	25.82	43.95	5.03	4.32	6.50	8.44
1934.....	.39	3.48	2.28	25.24	44.01	5.02	4.32	6.74	8.52
1935.....	.38	3.28	2.35	25.65	44.74	4.44	4.89	5.83	8.44

Source: Table B, Appendix.

seen that the variation between the proportion of national income and total population is striking. For example, Manitoba in 1931 had 6.75 per cent of the total population of Canada, but as the result of the decline in incomes only 4.90 per cent of its total income. As a result of the fall in incomes its share of the total population was about 40 per cent greater than was its share of the national income, or, stated the other way around, its share of the income was only two-thirds of its share of population. At another place we show that this situation is in part the result of the "price structure" that is faced by the prairie provinces. This means that the prices for "services" rendered by the East in handling the products of the West are "rigid" prices that serve to maintain incomes as long as *volume* of production is maintained. In the West, however, income decline is the result of declines in price as well as in volume; and, as MacIntosh has shown, the variability of price is roughly twice as great as the variability of volume.

In contrast to Manitoba, in 1931 Ontario had only 33 per cent of the population, but over 43 per cent of the income. In Quebec the two ratios were very close, the population being 27.70 per cent and the income 27.29 per cent. In British Columbia the income share was greater than that of

4. The revised data of Appendix Table B have been used in Table 1. The recent revisions of the amount of total production by the Dominion Bureau of Statistics cover only the years 1930, 1933, and 1934.

population, but in other provinces the income was considerably less than the population. In fact, in 1931 Saskatchewan had less than 4 per cent of the national income and almost 9 per cent of the total population.

In 1935, Manitoba, New Brunswick, Nova Scotia, and Saskatchewan each had a share in the population that was about one-half again as large as its share of national income. In Ontario, however, the income proportion was about one-third larger than the population proportion. These differences in population and income relation have been considered in detail inasmuch as it is these variations which determine the difference in tax and debt burden when calculated on a per capita basis and when calculated upon the basis of income.

We now turn to the trend of income for certain of the provinces. This information is given in Table 2 in the form of indexes for the total income of Canada and of each province. The data, given for 1929 and thereafter, are based upon 1926 as 100. These data demonstrate how much greater the

TABLE 2.—INDEXES OF INCOME FOR CANADA AND CERTAIN PROVINCES

Year	Canada	Manitoba	Saskat- chewan	Alberta	British Columbia	Ontario	Quebec	Nova Scotia
1926....	100	100	100	100	100	100	100	100
1929....	108	89	67	80	114	121	121	104
1930....	87	68	37	62	93	101	100	90
1931....	71	59	31	63	67	80	80	75
1932....	58	48	33	53	51	64	64	57
1933....	57	48	29	49	55	65	61	59
1934....	61	51	30	55	59	71	66	62
1935....	66	49	38	52	64	76	70	68

Source: Table D, Appendix.

decline in the income of the prairie provinces was than the decline in the rest of Canada. The income of the prairie provinces, moreover, probably increased only slightly in 1936, a year in which there was probably a substantial increase in the income of the remainder of the country.

TRENDS IN THE SOURCES OF INCOME IN CANADA

The principal sources of production in Canada in 1935 were manufacturing, agriculture, mining, and forestry, in the order given. A comparison of the total value of net production in each of these branches of the Canadian economy is provided by Table 3. The index numbers of their values are given for certain years in Table 4.

Agriculture has lost its former pre-eminent place in the net production of Canada. Within the period reviewed it has been far surpassed by manufacturing. Mining in 1935 surpassed forestry by a very slight margin. Mining, forestry, and manufacturing will all show pronounced gains in 1936 and

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1937, while agriculture will probably show rather small increases in the value of its total production. The trends reviewed are more easily grasped by means of index numbers, given in Table 4. These index numbers reveal clearly the very sharp decline and lack of recovery in the net production of agriculture as compared with the important branches of mining, forestry, and manufacturing.

TABLE 3.—SOURCES OF INCOME OF CANADA
(In millions of dollars)

Industry	1926	1929	1932	1935
Agriculture.....	1,400	1,034	565	623
Manufacturing.....	1,204	1,585	910	950
Forestry.....	313	338	133	228
Mining.....	240	311	191	239
Fisheries.....	56	54	26	34
Trapping.....	18	16	7	9
All other.....	409	609	273	312
Total production.....	3,640	3,947	2,105	2,395

Source: Table C, Appendix.

The data in Table 4 give indexes of net production for various Canadian industries as well as the index of total net production of Canada. Table 5 compares the trend in these industries for the different provinces with that of Canada as a whole. For agriculture and manufacturing, indexes are provided for every province. For mining, forestry, and fisheries, the data are shown for

TABLE 4.—INDEX NUMBERS OF TOTAL PRODUCTION
OF IMPORTANT CANADIAN INDUSTRIES

Industry	1926	1929	1932	1935
Agriculture.....	100	74	40	44
Manufacturing.....	100	132	76	79
Forestry.....	100	108	43	73
Mining.....	100	129	80	99
Fisheries.....	100	95	46	61
Trapping.....	100	93	40	50
Index of total net production	100	108	58	66

Source: Table C, Appendix.

only those provinces in which these industries are of considerable importance. The net production of agriculture in Canada declined more than that of any other important industry, from an index of 100 to 40 in the period from 1926 to 1932. By 1935 there had been only a 10 per cent recovery from the very low level that had been reached, making an index of 44. In 1935 the index for Manitoba was the lowest of any province in Canada, only two-thirds of that for the agricultural output of Canada as a whole. Manufacturing in each of the provinces shows only very slight variation from the index of net production for all manufacturing in Canada.

The indexes for mining reveal that by 1935 net production in Canada as a whole had been restored to the level of 1926, though not to the extremely high level reached in 1929. Manitoba has had a favourable mining development

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in recent years, but this industry still accounts for only a very small proportion—less than 5 per cent in 1935—of Manitoba's total net production. Aside from Manitoba the great recovery in mining has taken place in Quebec and Ontario. These provinces in 1935 produced about two-thirds of Canada's

TABLE 5.—INDEX NUMBERS OF PRODUCTION OF IMPORTANT CANADIAN INDUSTRIES
BY PROVINCES FOR SELECTED YEARS *

Year	Canada	Manitoba	Saskat- chewan	Alberta	British Columbia	Quebec	Ontario	Nova Scotia	New Brunsw- wick	Prince Edward Island
AGRICULTURE										
1926..	100	100	100	100	100	100	100	100	100	100
1929..	74	57	55	58	110	99	90	79	86	87
1932..	40	30	29	45	64	46	49	35	41	30
1935..	44	29	34	44	73	53	55	42	38	34
MANUFACTURING										
1926..	100	100	100	100	100	100	100	100	100	100
1929..	132	130	174	129	119	131	133	125	102	148
1932..	76	75	77	66	16	58	62	58	70	126
1935..	79	77	87	82	85	75	81	81	77	110
MINING										
1926..	100	....	....	100	100	100	100	100	....	....
1929..	129	....	....	129	104	179	139	107	....	....
1932..	80	....	....	79	42	99	101	56	....	....
1935..	99	....	....	62	45	130	154	49	....	....
FORESTRY										
1926..	100	....	....	....	100	100	100	....	100	....
1929..	108	....	....	....	112	106	103	....	93	....
1932..	48	....	....	....	33	50	37	....	39	....
1935..	73	....	....	....	62	85	66	....	69	....
FISHERIES										
1926..	100	....	....	....	100	....	....	100	100	....
1929..	95	....	....	....	87	....	....	91	111	....
1932..	46	....	....	....	36	....	....	52	56	....
1935..	61	....	....	....	56	....	....	63	74	....
TOTAL NET PRODUCTION										
1926..	100	100	100	100	100	100	100	100	100	100
1929..	108	89	67	80	114	121	121	104	96	89
1932..	58	48	33	53	51	64	64	57	59	39
1935..	66	49	38	52	64	70	77	68	67	42

Source: Table D, Appendix.

*Figures are omitted when of minor importance.

net mining production. In Nova Scotia, on the other hand, mining output in 1935 had fallen to one-half of the 1926 amount.

By 1935 the recovery in forest products had reached about three-quarters of the output of 1926. Although by 1932 the net value of forestry products had fallen to a level almost as low as that for agriculture, recovery by 1935 was very substantial, and compares very favourably with the recovery of agriculture, which was considerably less than one-half of the 1926 values.

THE BURDEN OF PROVINCIAL TAXATION

We now turn to a comparison of the burden of taxation in Manitoba with that of all other provinces. Because published reports on this subject frequently use the per capita amount of taxes as a measure, this submission

also provides this comparison. We believe, however, that the common use of the per capita method of measurement is due to the great facility with which it can be made, and that taxation is more adequately measured by the proportion of income it represents. The reason for this is that a province may have a greater share of total population than of total national income; clearly a given amount of per capita taxes would be a greater burden for such provinces than for those that do not have this smaller proportion of income.

In considering provincial taxation, we are interested in the total taxes paid by the people of a province. By total taxes we mean what is commonly referred to as combined or, more accurately, *overlapping* taxation. This consists principally of the total taxation of the province and the total taxation of all municipalities within the province. Since in some provinces certain functions are carried on by municipalities which in other provinces are carried on by the provincial government itself, the use of overlapping taxation gives a truer comparison. An illustration from the data in Table E of the Appendix may make this point clear. In Quebec, total taxes in 1933 were \$92,500,000. Municipal taxes constituted almost \$80,000,000 of this total, or well over 85 per cent of all taxes paid by the people of Quebec, excluding, of course, their contribution to the tax revenues of the Dominion itself. In contrast, municipal taxes in British Columbia constituted only about 60 per cent of the total taxes.

Consequently, comparisons both of overlapping taxation and of overlapping debt serve most accurately to reflect the total taxation and debt burdens of a province when no special account is taken of how governmental activities are carried on. The same results can be obtained by comparing first provincial and then municipal taxation for the different provinces, but this is, of course, a much more difficult process. Table E of the Appendix gives the total tax receipts of all municipalities and provincial governments and their total or overlapping provincial taxes; Table F the per capita tax receipts of municipalities alone for all provinces; Table G similar data for the taxes of the provinces alone.

Total per capita overlapping tax receipts by provinces from 1926 to 1933 are given in Table H of the Appendix. Table 6 below gives for selected

TABLE 6.—MUNICIPAL AND PROVINCIAL TAXES PER CAPITA

Province	1926	1929	1931	1933
Prince Edward Island.....	\$ 5.99	\$ 6.73	\$ 6.64	\$ 7.54
Nova Scotia.....	16.66	17.98	18.11	17.54
New Brunswick.....	12.75	13.17	14.17	14.50
Quebec.....	28.41	29.41	31.01	31.15
Ontario.....	36.74	41.81	44.01	41.40
Manitoba.....	34.66	36.63	34.11	33.55
Saskatchewan.....	36.98	35.11	23.40	21.91
Alberta.....	26.92	24.20	19.47	22.03
British Columbia.....	40.78	43.63	42.18	39.58
All provinces.....	\$31.57	\$33.66	\$33.28	\$32.32

Source: Table H, Appendix.

years the total per capita overlapping taxes paid by the people of each province and the average for all of the provinces. Per capita taxes for all of the provinces from 1926 to 1933 varied within the close range of \$2.09, or from \$31.57 to \$33.66. Per capita taxes were greatest in Ontario and British Columbia. In each of these two provinces the average amount of taxes for each person has in recent years averaged slightly over \$40.00. In Manitoba the average for the same years has been close to \$35. But, as we have indicated, per capita taxes are quite inaccurate as a measure of the burden of taxation because of the fact that they do not take into consideration differences in incomes and, as we have shown, the decline in income has been greatest in the agricultural areas because of the rigid prices that are costs to Western agriculture. Table 7 gives total overlapping taxes as percentages of the total income of the provinces.

TABLE 7.—PERCENTAGE OF INCOME COLLECTED IN PROVINCIAL AND MUNICIPAL TAXES

Province	1926	1929	1931	1933
Prince Edward Island.....	1.50%	1.91%	3.95%	4.34%
Nova Scotia.....	4.57	4.74	6.58	8.19
New Brunswick.....	3.72	4.08	6.19	8.16
Quebec.....	5.19	4.74	7.84	10.63
Ontario.....	5.13	5.09	8.36	10.07
<i>Manitoba</i>	6.37	7.97	11.71	14.36
Saskatchewan.....	6.11	9.33	14.08	14.31
Alberta.....	3.77	4.78	5.23	7.78
British Columbia.....	4.88	4.96	8.59	10.12
All provinces.....	5.11	5.28	8.29	10.34
All provinces, including Dominion taxes.....	10.81	11.58	15.10	18.11

Source: Table I, Appendix.

From 1926 to 1933 the share of the national income of Canada absorbed by provincial and municipal taxes combined was doubled, the increase being from 5.11 to 10.34 per cent. In Manitoba, as the result of the great decline in incomes, the percentage of income required for overlapping taxes increased from 6.37 in 1926 to 14.36 in 1933. This percentage was higher than for any other province, although it was exceeded by Saskatchewan from 1928 to 1932. Due to the decline in income of her people the proportion of income required for provincial and municipal taxation in Manitoba in 1933 was almost 40 per cent above the average for all Canadian provinces. In the central provinces, taxation required slightly over 10 per cent of the income; in the maritime provinces, slightly over 8 per cent, except in Prince Edward Island, where the amount was considerably less. The complete data for the entire period from 1926 to 1934 are given in Table I in the Appendix. The data for 1934 do not change materially the results given above for 1933.

THE EFFECTS OF DECLINING INCOME UPON THE BURDEN OF
GOVERNMENTAL DEBT IN MANITOBA

We now turn to the effects of the decline in income upon the burden of *indebtedness* of Manitoba in comparison with the other provinces. These comparisons are given, as they were for taxation, both on a per capita basis and as a percentage of the net income of the province. We would prefer to express indebtedness as a percentage of the wealth of the province. But data covering the total wealth never prove to be very satisfactory, inasmuch as their basis is largely assessed valuation, which is extremely inelastic, despite known changes in market value. This is probably due to the fact that assessors are more concerned with equitable treatment of all taxpayers than with a detailed recording of true market values.

Data used in making comparisons of provincial indebtedness are based on the net debt of each province. Net debt is defined as gross debt less current assets (including sinking funds) and less indebtedness incurred for self-sustaining enterprises. We need have little concern over the deduction of current assets and sinking funds from the amount of gross indebtedness. These funds are not large, but their deduction provides a more satisfactory comparison between provinces, inasmuch as some provinces hold greater proportions of current assets and debt in sinking funds than others. Likewise the indebtedness of one province owning electric light and power properties is made comparable to that of others only when the indebtedness incurred for these enterprises is excluded in the determination of its net debt. This grows out of the fact that indebtedness for such enterprises is financed, not through taxation, but through special charges for the services in question.

For municipalities, information as to current assets and sinking funds and self-sustaining enterprises is not available. For this reason the total overlapping or combined indebtedness which we have used consists of the *net* indebtedness of the province (as it has been defined above) and the *gross* indebtedness of municipalities. This lack of information on the net debt of municipalities probably does not introduce any error of great importance. Municipal finances are probably fairly comparable for the various provinces, since the total municipal debt for a province is made up of a larger number of municipal units only relatively small numbers of which have a revenue-bearing debt. In the case of provincial indebtedness there is but one unit.

Table J in the Appendix provides data on net debt, population, and per capita net debt of the provinces *only*; it covers *all* the provinces for the full period from 1926 to 1935. Table 8 below is a summary of this Appendix data. This table shows that per capita net debt of all provincial governments in Canada increased from \$48.22 in 1926 to \$103.67 in 1935. In Manitoba the per capita increase from \$62.57 to \$102.35 was substantially less and the 1935 figure was close to the average for all of the provinces. Thus we observe that the per capita increase was \$40 as compared with \$53 for all Canada. Quebec and Prince Edward Island had an indebtedness substantially below \$100

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per capita. In five other provinces the indebtedness ranged from \$126 to \$138. We wish to add to the expression of indebtedness on a per capita basis its measurement in relation to income, so that we may observe the effects

TABLE 8.—NET PER CAPITA DEBT OF PROVINCES ONLY

Province	1926	1929	1932	1935
Prince Edward Island.....	\$23.33	\$29.09	\$ 40.81	\$ 58.67
Nova Scotia.....	53.75	67.18	81.58	110.93
New Brunswick.....	61.69	83.84	113.22	127.23
Quebec.....	26.34	23.06	28.65	46.22
Ontario.....	52.01	65.38	94.58	125.74
Manitoba.....	62.57	66.06	90.94	102.35
Saskatchewan.....	32.34	41.20	85.35	130.08
Alberta.....	87.60	95.11	127.97	150.64
British Columbia.....	79.32	94.89	128.83	138.19
All provinces.....	\$48.22	\$56.07	\$ 79.51	\$103.67

Source: Table J, Appendix.

of the decline in incomes in Manitoba upon this average per capita amount. For this reason we turn to the measure of provincial debt in relation to the total income of the people of the province.

Table 9 provides for certain years indexes of the amount of net debt of the various provincial governments since 1926. This table reveals that the net debt increase of the provincial government of Manitoba was relatively *less*

TABLE 9.—INDEX NUMBERS OF NET DEBT OF PROVINCES

Province	1926	1929	1932	1935
Prince Edward Island.....	100	126	179	257
Nova Scotia.....	100	125	153	211
New Brunswick.....	100	139	191	223
Quebec.....	100	93	122	206
Ontario.....	100	132	200	281
Manitoba.....	100	112	161	182
Saskatchewan.....	100	137	300	456
Alberta.....	100	122	178	216
British Columbia.....	100	130	189	211
All provinces.....	100	123	183	249

Source: Table J, Appendix.

TABLE 10.—INDEX NUMBERS OF COMBINED PROVINCIAL AND MUNICIPAL
DEBT BY PROVINCES

Province	1926	1929	1932	1934
Prince Edward Island.....	100	127	176	202
Nova Scotia.....	100	118	137	158
New Brunswick.....	100	133	172	184
Quebec.....	100	114	150	188
Ontario.....	100	116	144	156
Manitoba.....	100	108	130	132
Saskatchewan.....	100	112	171	198
Alberta.....	100	130	156	159
British Columbia.....	100	120	146	149
All provinces.....	100	117	147	164

Source: Table L, Appendix.

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than for any other province. Based upon 1926 as 100 the net debt of Manitoba increased to an index of 182 in 1935. In the case of every other province the net debt increased to an index of more than 200, and the index for total debt of all provincial governments in 1935 was 249.

Table 10 provides a similar comparison for all the provinces in the case of combined provincial and municipal debt. In this comparison the index for all municipal and provincial debt in Canada was 164 in 1934 (1926=100); for Manitoba the index was 132, the *lowest* for any of the provinces.

Table K in the Appendix provides data covering the total income of the people of the various provinces, the net debt of the provinces only, and the percentage relation of this net debt to total income. These comparisons, as in the case of the per capita comparisons given above, apply only to the net debt of the provincial government.

Table 11 summarizes the relation of net provincial debt to income. It will be seen that the total net debt of all the provinces, expressed as a percentage of their income, increased almost fourfold from 1926 to 1935. In the latter year the total debt of all provinces was approximately 30 per cent of the aggregate income of the people of Canada. In Manitoba the percentage was 42.30. This percentage of debt to income was only slightly below that for Nova Scotia; it was substantially exceeded by Alberta, New Brunswick, and Saskatchewan. As stated above, these comparisons of per capita debt of the provinces and of the ratio of debt to income are based upon provincial debt only. We now turn to the more significant comparisons of per capita overlapping debt of each of the provinces and the ratio of overlapping debt to the total income of each of the provinces.

TABLE 11.—NET DEBT OF PROVINCES ONLY AS PERCENTAGE OF INCOME

Province	1926	1929	1932	1935
Prince Edward Island.....	5.87%	8.28%	26.82%	35.82%
Nova Scotia.....	14.74	17.70	39.51	45.96
New Brunswick.....	18.00	25.97	57.96	59.78
Quebec.....	4.81	3.72	9.12	14.22
Ontario.....	7.26	7.96	22.48	26.62
Manitoba.....	11.50	14.38	38.22	42.30
Saskatchewan.....	5.35	10.95	48.57	63.83
Alberta.....	12.27	18.81	41.41	50.95
British Columbia.....	9.49	10.79	34.89	31.05
All provinces.....	7.80	8.80	24.55	29.20

Source: Table K, Appendix.

Table L in the Appendix provides a summary of net provincial debt and total municipal debt by provinces. Table M provides per capita overlapping debt by provinces from 1926 to 1935. From the latter table, which gives the amount of both municipal and provincial indebtedness, per capita debt for all provinces may be briefly summarized as in Table 12 below. The average per capita debt for all the provinces in 1935 was \$215. British Columbia exceeded this average by almost \$100. Alberta, Manitoba, and Ontario had an indebtedness ranging from \$226 to \$239.

THE EFFECTS OF DECLINING INCOME

TABLE 12.—PER CAPITA OVERLAPPING DEBT OF PROVINCES:
MUNICIPAL AND NET PROVINCIAL DEBT

Province	1926	1929	1931	1933
Prince Edward Island.....	\$ 37.70	\$ 47.27	\$ 60.26	\$ 67.99
Nova Scotia.....	104.78	123.55	139.42	155.10
New Brunswick.....	104.85	136.66	164.66	173.69
Quebec.....	140.35	150.14	170.95	196.30
Ontario.....	182.69	200.94	229.27	238.71
Manitoba.....	188.89	195.83	212.20	228.58
Saskatchewan.....	99.14	103.39	143.54	156.03
Alberta.....	181.27	209.84	225.79	226.46
British Columbia.....	249.05	274.67	309.42	311.94
All provinces.....	159.48	175.28	201.01	214.96
Total Canadian public debt..	435.32	422.70	440.80	483.09

Source: Table M, Appendix.

We turn finally to overlapping debt as a percentage of the total income of the people of each province in order that we may arrive at the effects of the decline in incomes upon the burden of debt. The summary given in Table 13 is based on Table N in the Appendix, which provides in detail data for the years since 1926.

TABLE 13.—OVERLAPPING DEBT OF PROVINCES AS A PERCENTAGE OF INCOME

Province	1926	1929	1931	1933
Prince Edward Island.....	9.45%	13.45%	35.86%	39.14%
Nova Scotia.....	28.75	32.55	50.69	72.81
New Brunswick.....	30.59	42.34	71.92	97.71
Quebec.....	25.63	24.20	43.22	66.97
Ontario.....	25.51	24.45	43.57	58.10
Manitoba.....	34.70	41.99	72.85	97.81
Saskatchewan.....	16.38	27.48	86.04	101.89
Alberta.....	25.39	41.50	60.68	79.93
British Columbia.....	29.79	31.24	63.01	79.90
All provinces.....	25.80	27.73	50.04	68.76
Total Canadian public debt..	71.46	66.76	113.63	155.77

Source: Table N, Appendix.

It is of interest to consider the position of Manitoba. In 1926, while its provincial debt alone was only 11.50 per cent, its overlapping indebtedness was 35 per cent of the income of the people of the province in that year. By 1931 the combined provincial and municipal indebtedness of Manitoba, largely as the result of the decline in income, was 72 per cent of the total income of the people of the province. This was again about 50 per cent above the average for all provinces and was exceeded only by Saskatchewan. In 1933 the provincial and municipal indebtedness of Manitoba was 98 per cent, almost equal to the annual income in that year, which was at its lowest level—a level less than half of that in 1926, and a lower level than was reached by any of the provinces excepting Saskatchewan and Prince Edward Island. For Saskatchewan the corresponding figure for the relation of overlapping indebtedness to income was 102 per cent; the New Brunswick figure was equal to that of Manitoba. Outside of these three provinces, the ratio of indebtedness to income in 1933 was 80 per cent for Alberta and British Columbia; about 70 per cent for Quebec and Nova Scotia, as well as for all Canada; 58 per cent for Ontario, which was substantially below the Dominion average; and 39 per cent for Prince Edward Island.

APPENDIX TABLES

TABLE A.—DATA ON GAINFULLY EMPLOYED IN CANADA BY PROVINCES, 1931

(Explanation of method employed in Table A to determine the net value of service production by provinces: In the absence of suitable data it is necessary to estimate the value of the product of the service industries on the basis of the percentage of gainfully employed workers in the service industries, according to the Census of 1931. The steps involved are: (1) Calculation of the ratio of the number employed in service industries to the number employed in primary and secondary industries. (2) Application of this ratio to the value of the product of the primary and secondary industries. The resulting figure is the value of the product of the service industries by provinces. This method is that of the Dominion Bureau of Statistics and close correspondence exists between the data here developed and data published by the Bureau in the Canada Year Books for 1934-1937. For fuller explanation of the method used see above, pages 5-7. All data from Canada Year Books and Bulletin No. XXXVI, Dominion Bureau of Statistics.)

	Canada	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskat- chewan	Alberta	British Columbia
Number gainfully employed.....	3,927,591	32,170	181,084	140,020	1,025,842	1,346,377	270,692	338,925	286,216	306,265
Number employed in service industries ^a	1,472,000	7,777	61,236	46,188	399,870	531,334	109,509	95,298	89,697	131,091
Percentage in service industries.....	37.48%	24.17%	33.82%	32.99%	38.98%	39.46%	40.46%	28.12%	31.34%	42.80%
Number employed in primary and secondary industries ^b	2,455,591	24,393	119,848	93,832	625,972	815,043	161,183	243,627	196,519	175,174
Ratio of number employed in service industries to number employed in primary and secondary industries.....	59.94%	31.88%	51.09%	49.22%	63.88%	65.19%	67.94%	39.12%	45.64%	74.83%
NUMBER EMPLOYED IN SERVICE INDUSTRIES										
Transportation and communication.....	306,273	1,456	15,145	11,140	76,068	105,192	23,782	21,579	20,149	31,762
Trade, retail and wholesale.....	387,315	2,138	15,992	12,034	99,401	148,883	31,216	21,812	21,824	34,805
Finance.....	92,317	293	2,286	1,703	26,387	37,503	6,859	4,951	4,777	7,558
Service.....	767,705	4,548	31,871	23,628	221,016	268,807	53,203	51,988	47,736	64,908
Total.....	1,553,610	8,435	64,504	48,505	422,872	560,385	115,060	100,330	94,486	139,033
Less custom and repair ^c	81,610	658	3,268	2,317	23,002	29,051	5,551	5,032	4,789	7,942
Net total.....	1,472,000	7,777	61,236	46,188	399,870	531,334	109,509	95,298	89,697	131,091

^a See the bottom half of the table for an explanation of how the numbers employed in service industries are arrived at.

^b Primary production includes: agriculture, mining, trapping, forestry, fisheries, electric power. Secondary production includes: custom and repair, construction, manufacture. Service production includes: transportation and communication, trade, finance, and service.

^c Already included in secondary production.

TABLE B.—NET VALUE OF TOTAL PRODUCTION OF CANADA BY PROVINCES, 1926 TO 1935

Production	Canada ^a	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	All Provinces ^b
1926											
Total primary and secondary production ^c	\$3,640,300,000	\$86,322,025	\$124,218,480	\$ 90,904,915	\$ 809,294,363	\$1,371,638,660	\$907,100,745	\$357,046,705	\$298,070,080	\$289,861,471	\$5,835,553,411
Service production	2,182,030,000	8,392,600	36,485,221	44,772,931	555,496,879	894,803,841	540,791,246	170,676,694	136,010,511	216,853,441	4,630,553,411
Total net production	5,822,330,000	\$4,718,231	187,081,701	135,757,846	1,465,091,242	2,266,442,501	1,447,891,991	527,723,399	434,081,591	\$60,629,912	\$5,835,553,411
1927											
Total primary and secondary production	3,901,500,000	\$3,734,082	110,540,211	86,871,410	920,270,084	1,469,094,588	900,000,712	406,008,985	378,578,571	291,140,386	\$5,835,553,411
Service production	2,388,560,000	7,566,425	61,075,054	42,768,112	587,808,530	928,280,472	585,914,452	172,783,400	127,860,270	217,860,270	\$5,835,553,411
Total net production	6,290,060,000	\$11,300,507	180,615,265	129,639,522	1,508,138,614	2,428,281,060	1,385,915,164	578,792,385	506,438,841	\$60,629,912	\$5,835,553,411
1928											
Total primary and secondary production	4,122,510,000	\$25,128,229	144,272,307	85,564,985	970,660,796	1,572,855,443	\$25,192,068	\$15,826,134	\$31,413,775	\$91,364,242	\$5,835,553,411
Service production	2,471,030,000	7,375,471	73,708,752	42,016,645	625,811,140	1,025,331,422	680,783,037	208,821,150	156,891,150	\$60,629,912	\$5,835,553,411
Total net production	6,593,540,000	\$30,503,700	217,981,119	127,581,629	1,605,471,935	2,598,186,865	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$5,835,553,411
1929											
Total primary and secondary production	3,946,610,000	\$24,302,390	129,380,194	87,382,141	1,049,515,828	1,659,520,781	185,231,376	\$23,781,065	\$27,463,062	\$31,466,014	\$5,835,553,411
Service production	2,865,000,000	7,476,022	60,100,341	43,009,491	670,430,711	1,081,108,209	125,846,127	\$23,781,065	\$27,463,062	\$31,466,014	\$5,835,553,411
Total net production	6,811,610,000	\$30,909,612	190,480,535	130,391,632	1,719,946,539	2,739,628,990	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$5,835,553,411
1930											
Total primary and secondary production	3,183,920,000	\$6,261,118	111,890,729	77,174,580	868,527,340	1,380,550,865	147,137,106	\$13,097,319	\$18,032,440	\$29,170,091	\$5,835,553,411
Service production	1,908,440,000	5,184,044	\$7,164,969	\$7,386,323	\$54,687,511	\$99,856,536	\$5,926,140	\$13,097,319	\$18,032,440	\$29,170,091	\$5,835,553,411
Total net production	5,092,360,000	\$21,445,162	108,055,698	115,159,922	1,423,014,850	2,480,407,401	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$5,835,553,411
1931											
Total primary and secondary production	2,572,270,000	\$11,210,609	\$3,372,886	\$9,599,844	\$93,505,207	\$1,092,316,823	\$21,818,784	\$110,658,330	\$187,019,648	\$194,944,928	\$5,835,553,411
Service production	1,641,920,000	\$3,576,853	\$4,704,172	\$30,811,843	\$43,049,454	\$712,733,256	\$2,491,881	\$110,658,330	\$187,019,648	\$194,944,928	\$5,835,553,411
Total net production	4,214,190,000	\$14,787,463	\$14,077,059	\$39,411,487	\$1,136,014,061	\$1,805,050,109	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$5,835,553,411
1932											
Total primary and secondary production	2,104,900,000	\$10,284,066	\$7,017,659	\$54,083,723	\$17,659,317	\$84,801,710	\$100,463,108	\$117,935,748	\$127,016,824	\$18,032,440	\$5,835,553,411
Service production	1,261,680,000	\$3,272,376	\$6,291,781	\$26,610,164	\$36,352,772	\$76,809,253	\$8,247,842	\$117,935,748	\$127,016,824	\$18,032,440	\$5,835,553,411
Total net production	3,366,580,000	\$13,556,442	\$10,749,340	\$80,673,887	\$51,892,089	\$1,601,608,963	\$108,700,950	\$109,865,000	\$239,077,446	\$36,065,388	\$5,835,553,411
1933											
Total primary and secondary production	2,062,310,000	\$11,725,508	\$3,602,044	\$50,036,128	\$11,803,271	\$86,591,242	\$6,801,770	\$104,584,793	\$145,507,286	\$159,080,783	\$5,835,553,411
Service production	1,230,150,000	\$3,738,210	\$7,608,284	\$4,637,748	\$38,338,905	\$77,923,198	\$7,125,923	\$104,584,793	\$145,507,286	\$159,080,783	\$5,835,553,411
Total net production	3,292,460,000	\$15,463,718	\$11,210,328	\$54,673,876	\$50,142,176	\$1,638,164,434	\$102,927,693	\$109,169,586	\$239,077,446	\$36,065,388	\$5,835,553,411
1934											
Total primary and secondary production	2,338,700,000	\$10,181,252	\$6,928,789	\$54,509,349	\$27,270,139	\$63,014,413	\$38,988,381	\$106,321,772	\$106,360,920	\$127,784,883	\$5,835,553,411
Service production	1,388,880,000	\$3,245,707	\$9,149,648	\$27,270,139	\$36,014,413	\$38,988,381	\$106,321,772	\$106,360,920	\$127,784,883	\$127,784,883	\$5,835,553,411
Total net production	3,727,580,000	\$13,427,009	\$11,778,437	\$81,779,488	\$63,284,552	\$1,022,002,796	\$145,310,162	\$145,310,162	\$239,077,446	\$36,065,388	\$5,835,553,411
1935											
Total primary and secondary production	2,394,780,000	\$11,059,077	\$4,186,607	\$1,194,408	\$67,222,098	\$1,020,064,179	\$102,442,564	\$136,374,259	\$155,098,838	\$187,085,925	\$5,835,553,411
Service production	1,435,400,000	\$3,325,823	\$5,010,958	\$30,116,666	\$37,803,470	\$64,532,839	\$69,809,451	\$125,439,616	\$125,439,616	\$125,439,616	\$5,835,553,411
Total net production	3,830,180,000	\$14,384,900	\$12,197,565	\$1,224,574	\$1,059,881,668	\$1,084,597,018	\$172,254,019	\$161,813,875	\$280,538,454	\$212,525,541	\$5,835,553,411

^a Including the Yukon.^b These figures indicate the very slight relative degree of inaccuracy arising from methods of estimating the net value of service production. Duplication deducted for all primary and secondary production figures. In each year a duplication from the figure for manufactures is deducted. This duplication arises from including in two places a number of industries which may be regarded as extractive or as manufacturing processes (e.g., ship building was included under both construction and manufacturing up to 1929).TABLE B1.—REVISED DATA ON NET VALUE OF TOTAL PRODUCTION OF CANADA BY PROVINCES, 1926 TO 1935^a

Year	Canada ^a	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	All Provinces ^b
1926	\$5,835,715,000	\$84,717,000	\$187,070,000	\$135,757,846	\$1,465,091,242	\$2,266,442,501	\$907,100,745	\$357,046,705	\$298,070,080	\$289,861,471	\$5,835,715,000
1927	6,290,060,000	\$11,300,507	180,615,265	129,639,522	1,508,138,614	2,428,281,060	1,385,915,164	578,792,385	506,438,841	\$60,629,912	\$6,290,060,000
1928	6,593,540,000	\$30,503,700	217,981,119	127,581,629	1,605,471,935	2,598,186,865	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$6,593,540,000
1929	6,811,610,000	\$30,909,612	190,480,535	130,391,632	1,719,946,539	2,739,628,990	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$6,811,610,000
1930	5,092,360,000	\$21,445,162	108,055,698	115,159,922	1,423,014,850	2,480,407,401	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$5,092,360,000
1931	4,214,190,000	\$14,787,463	\$14,077,059	\$39,411,487	\$1,136,014,061	\$1,805,050,109	\$25,192,068	\$25,192,068	\$25,192,068	\$25,192,068	\$4,214,190,000
1932	3,366,580,000	\$13,556,442	\$10,749,340	\$80,673,887	\$51,892,089	\$1,601,608,963	\$108,700,950	\$109,865,000	\$239,077,446	\$36,065,388	\$3,366,580,000
1933	3,292,460,000	\$15,463,718	\$11,210,328	\$54,673,876	\$50,142,176	\$1,638,164,434	\$102,927,693	\$109,169,586	\$239,077,446	\$36,065,388	\$3,292,460,000
1934	3,727,580,000	\$13,427,009	\$11,778,437	\$81,779,488	\$63,284,552	\$1,022,002,796	\$145,310,162	\$145,310,162	\$239,077,446	\$36,065,388	\$3,727,580,000
1935	3,830,180,000	\$14,384,900	\$12,197,565	\$1,224,574	\$1,059,881,668	\$1,084,597,018	\$172,254,019	\$161,813,875	\$280,538,454	\$212,525,541	\$3,830,180,000

^a The figures for total production in 1933 and 1934 appeared in the Canadian Year Book, 1937, revised for the first time in accordance with a resolution adopted by the Conference of Commonwealth Statisticians in 1935. The revised figures are shown in the above table for these years. Beginning with the year 1933 the Dominion Bureau of Statistics has calculated the value of total net production (including value of total production of service industries) by province. Although the method employed is basically similar to the one we have used in Tables A and B of this Appendix, their results differ slightly from our own. For purposes of comparison, therefore, we apply the percentages used by them in the years 1926-34 to the years 1926-31 and 1935; the results appear in the above table. The figures for 1930 are based upon data revised in the Year Book of 1937.^b Including the Yukon.^c See footnote b to above table.

TABLE C.—TOTAL VALUE AND INDEX OF PRODUCTION FOR VARIOUS CANADIAN INDUSTRIES, 1926 TO 1935^a
(For index numbers, 1926=100)

YEAR	AGRICULTURE		FORESTRY		FISHERIES		TRAPPING		MINING		MANUFACTURES	
	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.
1926	\$1,400,245,000	100.00	\$312,844,000	100.00	\$56,361,000	100.00	\$17,609,000	100.00	\$240,437,000	100.00	\$1,204,096,000	100.00
1927	1,522,949,000	108.76	311,915,000	99.70	49,497,000	87.82	17,641,000	100.18	247,357,000	102.88	1,290,676,000	107.19
1928	1,501,271,000	107.21	323,654,000	103.46	55,051,000	97.68	16,604,000	94.29	274,989,000	114.37	1,436,967,000	119.34
1929	1,034,130,000	73.85	337,649,000	107.93	53,518,000	94.96	16,356,000	92.88	310,850,000	129.29	1,584,904,000	131.63
1930	725,970,000	51.85	303,145,000	96.90	47,804,000	84.82	9,876,000	56.08	279,874,000	116.40	1,308,971,000	100.71
1931	610,261,000	43.58	200,650,000	64.14	30,517,000	54.15	8,745,000	49.66	228,029,000	94.84	1,095,696,000	91.00
1932	565,418,000	40.38	133,402,000	42.64	25,937,000	46.05	7,118,000	40.42	191,228,000	79.53	909,998,000	75.58
1933	581,316,000	41.52	138,590,000	44.30	27,558,000	48.90	7,258,000	41.22	221,495,000	92.12	851,752,000	70.74
1934	592,195,000	42.29	208,207,000	66.55	34,022,000	60.36	8,637,000	49.05	209,074,000	86.96	881,248,000	73.19
1935	622,772,000	44.48	227,500,000	72.72	34,428,000	61.08	8,877,000	50.41	238,581,000	99.23	950,170,000	78.91

Year	Total Income from Primary and Secondary Sources ^b		Total National Income	
	Value	Index No.	Value	Index No.
1926	\$3,640,360,000	100.00	\$5,822,390,000	100.00
1927	3,901,500,000	107.17	6,240,060,000	107.17
1928	4,122,510,000	113.24	6,593,540,000	113.24
1929	3,946,610,000	108.41	6,312,210,000	108.41
1930	3,183,920,000	87.46	5,092,360,000	87.46
1931	2,572,270,000	70.66	4,114,090,000	70.66
1932	2,104,900,000	57.82	3,366,580,000	57.82
1933	2,062,310,000	56.65	3,298,460,000	56.65
1934	2,233,700,000	61.36	3,572,580,000	61.36
1935	2,394,720,000	65.78	3,830,120,000	65.78

^a Including Yukon and Northwest Territories.

^b Supplied to indicate total production for the six principal branches on which details are given above.

TABLE D.—TOTAL VALUE AND INDEX OF TOTAL NET PRODUCTION OF VARIOUS INDUSTRIES FOR THE SEVERAL PROVINCES, 1926 TO 1935
(For index numbers 1926=100)

YEAR	AGRICULTURE		FORESTRY		FISHERIES		MANUFACTURES		MINING		TOTAL INCOME FROM PRIMARY AND SECOND-ARY SOURCES		TOTAL PROVINCIAL INCOME	
	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Amount	Index No.	Amount	Index No.
PRINCE EDWARD ISLAND														
1926	\$22,530,000	100.00	\$	743,000	100.00	\$1,359,000	100.00	\$	740,000	100.00	\$26,326,000		\$34,718,000	100.00
1927	19,486,000	86.49		783,000	105.38	1,368,000	100.66		961,000	129.86	23,734,000		31,300,000	90.15
1928	19,384,000	86.04		781,000	105.11	1,197,000	88.08		1,007,000	136.08	23,129,000		30,502,000	87.86
1929	19,650,000	87.22		582,000	78.33	1,297,000	95.44		1,094,000	147.83	23,452,000		30,929,000	89.09
1930	12,776,000	56.71		584,000	78.60	1,141,000	83.96		1,025,000	138.51	16,261,000		21,445,000	61.77
1931	8,685,000	38.55		556,000	74.83	1,079,000	79.40		1,104,000	149.19	11,217,000		14,792,000	42.61
1932	6,700,000	29.74		554,000	74.56	989,000	72.77		935,000	126.35	10,265,000		13,537,000	38.99
1933	8,804,000	39.08		549,000	73.88	842,000	61.96		833,000	112.57	11,726,000		15,464,000	44.54
1934	7,391,000	32.80		550,000	74.02	964,000	70.93		714,000	96.49	10,181,000		13,427,000	38.67
1935	7,704,000	34.19		563,000	75.77	900,000	66.23		815,000	110.14	11,060,000		14,585,000	42.01
NOVA SCOTIA														
1926	38,054,000	100.00	10,177,000	100.00	12,506,000	100.00	25,267,000	100.00	\$28,874,000	100.00	124,218,000		187,682,000	100.00
1927	33,793,000	88.64	11,019,000	108.27	10,784,000	86.23	23,104,000	91.44	30,111,000	104.28	119,540,000		180,613,000	96.23
1928	36,584,000	96.14	10,018,000	98.44	11,682,000	93.41	30,261,000	119.76	30,524,000	105.71	144,272,000		217,981,000	116.14
1929	30,160,000	79.26	9,707,000	95.38	11,427,000	91.37	31,501,000	124.67	30,904,000	107.03	129,381,000		195,480,000	104.15
1930	25,744,000	67.65	11,134,000	109.40	10,411,000	83.25	28,612,000	113.27	27,019,000	93.58	111,891,000		169,056,000	90.08
1931	18,925,000	49.73	9,773,000	96.05	7,987,000	63.87	24,706,000	97.78	21,081,000	73.01	93,873,000		141,077,000	75.17
1932	13,177,000	34.63	7,421,000	72.92	6,558,000	52.44	14,746,000	58.36	16,201,000	56.11	70,918,000		107,149,000	57.09
1933	17,082,000	44.89	6,677,000	65.61	6,011,000	48.06	18,818,000	74.48	16,966,000	58.76	73,602,000		111,205,000	59.25
1934	14,243,000	37.43	9,096,000	89.38	7,674,000	61.36	18,141,000	71.80	14,068,000	48.72	76,629,000		115,778,000	61.69
1935	16,151,000	42.44	9,191,000	90.31	7,853,000	62.79	20,422,000	80.82	14,207,000	49.20	84,187,000		127,198,000	67.77
NEW BRUNSWICK														
1926	32,906,000	100.00	26,767,000	100.00	5,925,000	100.00	17,126,000	100.00	1,811,000	100.00	90,965,000		135,738,000	100.00
1927	29,032,000	88.23	26,136,000	97.64	4,407,000	82.76	18,602,000	108.62	2,148,000	118.61	86,871,000		129,630,000	95.50
1928	29,839,000	90.68	26,356,000	93.52	5,002,000	93.93	17,058,000	99.60	2,199,000	121.42	85,365,000		127,382,000	93.84
1929	28,346,000	86.14	24,328,000	92.76	5,936,000	111.47	17,473,000	102.03	2,439,000	134.68	87,382,000		130,392,000	96.06
1930	23,480,000	71.95	21,965,000	82.06	4,854,000	91.15	14,926,000	87.15	2,191,000	120.98	77,174,000		115,160,000	84.84
1931	16,693,000	50.73	15,342,000	57.32	4,170,000	78.31	14,933,000	87.19	2,177,000	120.21	62,600,000		93,411,000	68.82
1932	13,375,000	40.65	10,388,000	38.81	2,973,000	55.83	12,051,000	70.37	2,224,000	122.80	54,064,000		80,674,000	59.43
1933	11,776,000	35.79	11,262,000	42.07	3,061,000	57.48	14,851,000	86.72	2,108,000	116.40	50,036,000		74,664,000	55.01
1934	11,196,000	34.02	16,988,000	63.47	3,680,000	69.11	13,300,000	77.66	1,863,000	102.87	55,404,000		82,675,000	60.91
1935	12,654,000	38.45	18,550,000	69.30	3,950,000	74.18	13,123,000	76.63	2,467,000	136.92	61,184,000		91,299,000	67.26

TABLE D (Continued)—TOTAL VALUE AND INDEX OF TOTAL NET PRODUCTION OF VARIOUS INDUSTRIES FOR THE SEVERAL PROVINCES, 1926 TO 1935
(For index numbers 1926 = 100)

YEAR	AGRICULTURE		FORESTRY		MANUFACTURES		MINING		TOTAL INCOME FROM PRIMARY AND SECONDARY SOURCES		TOTAL PROVINCIAL INCOME	
	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Amount	Index No.	Amount	Index No.
QUEBEC												
1926 ..	\$209,338,000	100.00	\$99,651,000	100.00	\$377,774,000	100.00	\$25,956,000	100.00	\$869,594,000	100.00	\$1,425,091,000	100.00
1927 ..	220,902,000	105.52	102,535,000	102.89	412,079,000	109.08	28,870,000	111.23	920,270,000	105.83	1,508,139,000	105.83
1928 ..	228,209,000	109.01	105,949,000	106.32	449,106,000	118.88	37,037,000	142.69	979,667,000	112.66	1,605,478,000	112.66
1929 ..	206,847,000	98.81	105,487,000	105.86	495,902,000	131.27	46,358,000	178.60	1,049,516,000	120.69	1,719,946,000	120.69
1930 ..	173,275,000	82.77	110,780,000	111.17	403,333,000	106.77	41,215,000	158.79	868,327,000	99.85	1,423,015,000	99.85
1931 ..	106,669,000	50.96	67,455,000	67.69	323,407,000	85.61	35,696,000	137.53	693,565,000	79.76	1,136,615,000	79.76
1932 ..	96,855,000	46.27	50,235,000	50.41	219,511,000	58.11	25,638,000	98.77	557,659,000	64.12	913,892,000	64.12
1933 ..	95,850,000	45.79	50,937,000	51.12	276,579,000	73.21	28,141,000	108.42	531,204,000	61.09	870,536,000	61.09
1934 ..	111,651,000	53.34	77,670,000	77.94	271,081,000	71.76	26,078,000	100.47	572,339,000	65.82	937,950,000	65.82
1935 ..	110,706,000	52.88	84,258,000	84.55	281,892,000	74.62	33,679,000	129.75	607,222,000	69.83	995,116,000	69.83
ONTARIO												
1926 ..	378,092,000	100.00	87,696,000	100.00	649,667,000	100.00	84,702,000	100.00	1,371,689,000	100.00	2,265,892,000	100.00
1927 ..	378,825,000	100.19	80,173,000	91.42	694,552,000	106.91	89,983,000	106.23	1,469,994,000	107.17	2,428,284,000	107.17
1928 ..	393,106,000	103.97	87,064,000	99.28	775,453,000	119.36	99,585,000	117.57	1,572,835,000	114.66	2,598,167,000	114.66
1929 ..	340,304,000	90.01	90,408,000	103.09	865,182,000	133.17	117,662,000	138.91	1,658,396,000	120.90	2,739,504,000	120.90
1930 ..	278,409,000	73.64	74,954,000	85.47	708,289,000	109.02	113,531,000	134.04	1,380,360,000	100.63	2,230,216,000	100.63
1931 ..	195,646,000	51.75	53,349,000	60.83	546,451,000	84.11	96,113,000	113.47	1,093,317,000	79.71	1,806,050,000	79.71
1932 ..	184,958,000	48.92	32,188,000	36.70	400,417,000	61.63	85,910,000	101.43	884,802,000	64.50	1,461,604,000	64.50
1933 ..	209,823,000	55.50	49,811,000	67.70	439,311,000	67.70	110,205,000	130.11	886,521,000	64.62	1,464,444,000	64.62
1934 ..	189,356,000	50.08	52,344,000	59.69	477,040,000	73.43	117,104,000	138.25	971,143,000	70.80	1,604,232,000	70.80
1935 ..	209,132,000	55.33	57,606,000	65.69	524,979,000	80.81	130,220,000	153.74	1,050,064,000	76.55	1,734,601,000	76.55
MANITOBA												
1926 ..	120,166,000	100.00	.....	.....	47,221,000	100.00	3,074,000	100.00	207,101,000	100.00	347,805,000	100.00
1927 ..	98,332,000	81.83	.....	.....	51,716,000	109.52	2,889,000	93.98	200,051,000	96.60	335,965,000	96.60
1928 ..	135,435,000	112.71	.....	.....	58,489,000	123.86	4,187,000	136.21	235,182,000	115.56	394,966,000	115.56
1929 ..	68,275,000	56.82	.....	.....	61,332,000	129.88	5,424,000	176.45	185,231,000	89.44	311,078,000	89.44
1930 ..	46,677,000	38.84	.....	.....	52,492,000	111.16	5,453,000	177.39	140,137,000	67.67	235,346,000	67.67
1931 ..	28,201,000	23.47	.....	.....	48,220,000	102.12	9,966,000	324.20	121,419,000	58.63	203,911,000	58.63
1932 ..	36,315,000	30.22	.....	.....	35,294,000	74.74	9,058,000	294.66	100,455,000	48.50	168,701,000	48.50
1933 ..	40,649,000	33.83	.....	.....	33,000,000	69.88	9,027,000	293.66	98,802,000	47.71	165,928,000	47.71
1934 ..	45,491,000	37.86	.....	.....	34,040,000	72.09	6,857,000	223.06	106,392,000	51.34	178,557,000	51.34
1935 ..	35,047,000	29.17	.....	.....	36,361,000	77.00	9,040,000	294.07	102,442,000	49.47	172,042,000	49.47

TABLE D (Continued)—TOTAL VALUE AND INDEX OF TOTAL NET PRODUCTION OF VARIOUS INDUSTRIES FOR THE SEVERAL PROVINCES, 1926 TO 1935
(For index numbers 1926=100)

YEAR	AGRICULTURE		MANUFACTURES		MINING		FORESTRY		FISHERIES		TOTAL INCOME FROM PRIMARY AND SECONDARY SOURCES		TOTAL PROVINCIAL INCOME	
	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Value	Index No.	Amount	Index No.	Amount	Index No.
SASKATCHEWAN														
1926 ..	\$316,886,000	100.00	\$12,508,000	100.00	.....	.....	.....	.....	.....	.....	\$357,047,000	\$496,723,000	100.00	100.00
1927 ..	364,722,000	115.10	13,869,000	111.68	.....	.....	.....	.....	.....	.....	406,099,000	564,965,000	113.74	113.74
1928 ..	364,992,000	115.18	18,350,000	146.71	.....	.....	.....	.....	.....	.....	413,825,000	575,714,000	115.90	115.90
1929 ..	173,110,000	54.63	21,750,000	173.89	.....	.....	.....	.....	.....	.....	238,782,000	332,193,000	66.88	66.88
1930 ..	77,595,000	24.49	18,404,000	147.14	.....	.....	.....	.....	.....	.....	131,097,000	182,382,000	36.72	36.72
1931 ..	44,267,000	13.97	13,460,000	107.61	.....	.....	.....	.....	.....	.....	110,558,000	153,809,000	30.96	30.96
1932 ..	91,668,000	28.93	9,622,000	76.93	.....	.....	.....	.....	.....	.....	117,859,000	163,965,000	33.01	33.01
1933 ..	77,840,000	24.56	10,134,000	81.02	.....	.....	.....	.....	.....	.....	102,585,000	142,716,000	28.73	28.73
1934 ..	78,547,000	24.79	10,157,000	81.20	.....	.....	.....	.....	.....	.....	106,961,000	148,804,000	29.96	29.96
1935 ..	107,844,000	34.03	10,848,000	86.73	.....	.....	.....	.....	.....	.....	136,374,000	189,724,000	38.20	38.20
ALBERTA														
1926 ..	219,877,000	100.00	25,805,000	100.00	\$26,977,000	100.00	.....	.....	.....	.....	298,027,000	434,046,000	100.00	100.00
1927 ..	298,152,000	135.60	25,822,000	100.07	29,309,000	108.64	.....	.....	.....	.....	378,578,000	551,362,000	127.03	127.03
1928 ..	248,289,000	112.92	31,476,000	121.98	32,531,000	120.59	.....	.....	.....	.....	341,414,000	497,234,000	114.56	114.56
1929 ..	128,327,000	58.36	33,371,000	129.32	34,740,000	128.78	.....	.....	.....	.....	237,494,000	345,886,000	79.69	79.69
1930 ..	86,510,000	39.34	30,978,000	120.05	30,620,000	113.50	.....	.....	.....	.....	185,032,000	269,481,000	62.09	62.09
1931 ..	91,778,000	41.74	22,563,000	87.44	23,581,000	87.41	.....	.....	.....	.....	187,020,000	272,375,000	62.75	62.75
1932 ..	99,530,000	45.27	17,137,000	66.41	21,183,000	78.52	.....	.....	.....	.....	157,016,000	228,678,000	52.69	52.69
1933 ..	93,991,000	42.75	17,384,000	69.30	19,703,000	73.04	.....	.....	.....	.....	145,507,000	211,917,000	48.82	48.82
1934 ..	109,009,000	49.58	20,188,000	78.23	14,703,000	54.50	.....	.....	.....	.....	162,785,000	237,080,000	54.62	54.62
1935 ..	97,490,000	44.34	21,137,000	81.91	16,738,000	62.05	.....	.....	.....	.....	155,099,000	225,886,000	52.04	52.04
BRITISH COLUMBIA														
1926 ..	35,495,000	100.00	47,988,000	100.00	65,623,000	100.00	\$77,411,000	100.00	\$27,367,000	100.00	289,801,000	506,660,000	100.00	100.00
1927 ..	39,759,000	112.01	50,072,000	104.34	60,801,000	92.65	76,865,000	85.01	23,264,000	85.01	291,140,000	509,000,000	100.46	100.46
1928 ..	45,433,000	128.00	55,767,000	116.21	64,496,000	98.23	82,909,000	97.06	26,563,000	97.06	321,354,000	561,824,000	110.89	110.89
1929 ..	39,111,000	110.19	57,288,000	119.38	68,163,000	103.87	86,888,000	87.44	23,921,000	87.44	331,466,000	579,502,000	114.38	114.38
1930 ..	34,324,000	96.70	50,911,000	106.09	54,933,000	83.74	64,329,000	84.42	23,103,000	84.42	269,179,000	470,606,000	92.88	92.88
1931 ..	27,328,000	76.99	26,721,000	55.68	35,338,000	53.85	39,050,000	50.45	11,109,000	40.59	194,945,000	340,832,000	67.27	67.27
1932 ..	22,839,000	64.34	7,498,000	15.62	27,326,000	41.64	25,634,000	33.11	9,909,000	36.21	143,630,000	259,954,000	51.31	51.31
1933 ..	25,501,000	71.84	39,842,000	83.02	30,794,000	46.93	29,493,000	38.10	12,001,000	43.85	159,003,000	277,984,000	54.87	54.87
1934 ..	25,311,000	71.31	36,587,000	76.24	26,029,000	39.71	43,777,000	56.55	15,249,000	55.72	171,932,000	300,589,000	59.33	59.33
1935 ^a ..	25,993,000	73.23	40,593,000	84.59	29,359,000	44.74	48,295,000	62.39	13,190,000	55.50	187,088,000	327,086,000	64.56	64.56

^a British Columbia and Yukon.

TABLE E.—TOTAL OVERLAPPING OR COMBINED TAX RECEIPTS OF MUNICIPALITIES AND PROVINCES, 1926 TO 1934
(In millions of dollars)

YEAR	PRINCE EDWARD ISLAND		NOVA SCOTIA		NEW BRUNSWICK		QUEBEC		ONTARIO						
	Municipal	Provincial	Total	Municipal	Provincial	Total	Municipal	Provincial	Total	Municipal	Provincial	Total			
1926 ..	175 ^a	.346	.521	6.40	2.18	8.58	3.50 ^a	1.55	5.05	67.78	6.18	73.96	96.70	19.55	116.25
1927 ..	175 ^a	.259	.434	6.58	1.89	8.47	3.50 ^a	1.24	4.74	71.04	8.18	79.22	103.43	21.12	124.55
1928 ..	175 ^a	.353	.528	6.80	2.13	8.93	3.50 ^a	1.25	4.75	62.62	9.81	72.43	107.45	16.70	124.15
1929 ..	175 ^a	.417	.592	6.81	2.45	9.26	3.86 ^b	1.46	5.32	69.45	12.06	81.51	116.69	22.70	139.39
1930 ..	175 ^a	.418	.593	6.64	2.65	9.29	3.92 ^b	1.49	5.41	73.34	14.28	87.62	120.63	29.42	150.05
1931 ..	169	.415	.584	6.60	2.69	9.29	4.16 ^b	1.62	5.78	73.76	15.37	89.13	122.32	28.73	151.05
1932 ..	146	.476	.622	6.61	3.01	9.62	4.03 ^b	1.73	5.76	79.61	13.04	92.65	121.28	28.70	149.98
1933 ..	156	.515	.671	6.44	2.67	9.11	4.33 ^b	1.76	6.09	79.47	13.05	92.52	116.92	30.63	147.55
1934 ..	164	.561	.725	7.11	3.12	10.23	4.80 ^b	1.71	6.51	59.73 ^c	12.87	72.60	117.89	29.42	147.31

YEAR	MANITOBA		SASKATCHEWAN		ALBERTA		BRITISH COLUMBIA		ALL PROVINCES						
	Municipal	Provincial	Total	Municipal	Provincial	Total	Municipal	Provincial	Total	Municipal	Provincial	Total			
1926 ..	17,54 ^d	4.61	22.15	26.30	4.06	30.36	12.43	3.94	16.37	14.86	9.85	24.71	245.69	52.27	297.96
1927 ..	17,53 ^d	3.84	21.37	26.24	3.60	29.84	10.57	3.66	14.23	15.21	10.34	25.55	254.28	54.13	308.41
1928 ..	17,91 ^d	4.18	22.09	27.37	4.87	32.24	9.58	4.67	14.25	16.15	9.96	26.11	251.56	53.92	305.48
1929 ..	19,46 ^d	5.34	24.80	26.61	4.39	31.00	11.00	5.55	16.55	17.34	11.41	28.75	271.39	65.78	337.18
1930 ..	19,32 ^d	4.72	24.04	20.78	4.64	25.42	10.42	4.89	15.31	17.99	11.38	29.37	273.22	73.89	347.11
1931 ..	19,53	4.35	23.88	18.39	3.27	21.66	10.26	3.99	14.25	18.26	11.01	29.27	273.45	71.45	344.90
1932 ..	17,29	5.09	22.38	17.62	4.84	22.46	12.03	5.07	17.10	17.09	11.31	28.40	275.71	73.27	348.98
1933 ..	17,10	6.72	23.82	15.82	4.60	20.42	11.66	4.82	16.48	17.52	10.61	28.13	269.42	75.38	344.80
1934 ..	18,19	6.75	24.94	16.62	4.21	20.83	12.22	5.05	17.27	18.00	12.10	30.10	254.72	75.79	330.52

^a These figures estimated on the basis of those of the later years.

^b These figures based on Tax Conference Report No. 151, issued by the Citizens' Research Institute of Canada.

^c As published in Canada Year Book, 1937, p. 856, with note that figure is not comparable with figures for earlier years.

^d These figures are for taxes levied.

TABLE F.—TOTAL AND PER CAPITA TAX RECEIPTS OF MUNICIPALITIES ONLY, BY PROVINCES, 1926 TO 1934
(Tax receipts are in millions of dollars; population is in millions.)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Municipal		Per Capita	Municipal		Per Capita	Municipal		Per Capita	Municipal		Per Capita	Municipal		Per Capita
	Tax Receipts	Population		Tax Receipts	Population		Tax Receipts	Population		Tax Receipts	Population		Tax Receipts	Population	
1926 ..	.175 ^a	.087	\$2.01	6.40	.515	\$12.43	3.50 ^a	.396	\$8.84	67.78	2.603	\$26.04	96.70	3.164	\$30.56
1927 ..	.175 ^a	.087	2.01	6.58	.515	12.78	3.50 ^a	.398	8.79	71.04	2.657	26.74	103.43	3.219	32.13
1928 ..	.175 ^a	.088	2.01	6.80	.515	13.20	3.50 ^a	.401	8.73	62.62	2.715	23.06	107.45	3.278	32.78
1929 ..	.175 ^a	.088	2.01	6.81	.515	13.22	3.50 ^a	.404	8.73	69.45	2.772	25.05	116.69	3.334	35.00
1930 ..	.175	.088	2.01	6.64	.514	12.92	3.92 ^b	.406	9.66	73.34	2.825	25.96	120.63	3.386	35.63
1931 ..	.169	.088	1.92	6.60	.513	12.86	4.16 ^b	.408	10.20	73.76	2.874	25.66	122.32	3.432	35.64
1932 ..	.146	.089	1.64	6.61	.519	12.74	4.03 ^b	.413	9.76	79.61	2.910	27.36	121.28	3.475	34.90
1933 ..	.156	.089	1.75	6.44	.522	12.34	4.33 ^b	.420	10.31	79.47	2.970	26.76	116.92	3.564	32.81
1934 ..	.164	.089	1.84	7.11	.525	13.54	4.80 ^b	.425	11.29	59.73 ^c	3.018	19.79	117.89	3.629	32.49

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Municipal		Per Capita	Municipal		Per Capita	Municipal		Per Capita	Municipal		Per Capita	Municipal		Per Capita
	Tax Receipts	Population		Tax Receipts	Population		Tax Receipts	Population		Tax Receipts	Population		Tax Receipts	Population	
1926 ..	17.54 ^d	.639	\$27.45	26.30	.821	\$32.03	12.43	.608	\$20.44	14.86	.606	\$24.52	245.68	9.439	\$26.03
1927 ..	17.53 ^d	.651	26.93	26.24	.841	31.20	10.57	.633	16.70	15.21	.623	24.41	254.27	9.624	26.42
1928 ..	17.91 ^d	.664	26.97	27.37	.862	31.75	9.58	.658	14.56	16.15	.641	25.19	251.55	9.822	25.61
1929 ..	19.46 ^d	.677	28.74	26.61	.883	30.14	11.00	.684	16.08	17.34	.659	26.31	271.39	10.016	27.10
1930 ..	19.32 ^d	.689	28.04	20.78	.903	23.01	10.42	.708	14.72	17.99	.676	26.61	273.21	10.195	26.80
1931 ..	19.53	.700	27.90	18.39	.922	19.95	10.26	.732	14.02	18.26	.694	26.31	273.45	10.363	26.39
1932 ..	17.29	.709	24.39	17.62	.933	18.89	12.03	.740	16.26	17.09	.704	24.28	275.71	10.492	26.28
1933 ..	17.10	.710	24.08	15.82	.932	16.97	11.66	.748	15.59	17.52	.712	24.61	269.42	10.667	25.26
1934 ..	18.19	.711	25.58	16.62	.932	17.83	12.22	.756	16.16	18.00	.725	24.83	254.72	10.810	23.56

^a These figures estimated on the basis of those of the later years.

^b Tax Conference Report No. 151, issued by the Citizens' Research Institute of Canada.

^c As published in Canada Year Book, 1937, p. 856, with note that figure is not comparable with figures for earlier years.

^d These figures are for taxes levied.

TABLE G.—TOTAL AND PER CAPITA TAX RECEIPTS OF PROVINCES ONLY, 1926 TO 1935
(Tax receipts are in millions of dollars; population is in millions.)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita
1926 ..	.346	.087	\$3.98	2.18	.515	\$4.23	1.55	.396	\$3.91	6.18	2.603	\$2.37	19.55	3.164	\$ 6.18
1927 ..	.259	.087	2.98	1.89	.515	3.67	1.24	.398	3.12	8.18	2.657	3.03	21.12	3.219	6.56
1928 ..	.353	.088	4.01	2.13	.515	4.14	1.25	.401	3.12	9.81	2.715	3.61	16.70	3.278	5.09
1929 ..	.417	.088	4.74	2.45	.515	4.76	1.46	.404	3.61	12.06	2.772	4.35	22.70	3.334	6.81
1930 ..	.418	.088	4.75	2.65	.514	5.16	1.49	.406	3.67	14.28	2.825	5.06	29.42	3.386	8.69
1931 ..	.415	.088	4.72	2.69	.513	5.24	1.62	.408	3.97	15.37	2.874	5.85	28.73	3.432	8.37
1932 ..	.476	.089	5.35	3.01	.519	5.80	1.73	.413	4.19	13.04	2.910	4.48	28.70	3.475	8.26
1933 ..	.515	.089	5.79	2.67	.522	5.12	1.76	.420	4.19	13.05	2.970	4.39	30.63	3.564	8.59
1934 ..	.561	.089	6.30	3.12	.525	5.94	1.71	.425	4.02	12.87	3.018	4.26	29.42	3.629	8.11
1935 ..	.534	.089	6.00	3.63	.527	6.89	2.13	.429	4.97	13.79	3.062	4.50	39.53	3.673	10.76

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita	Provincial Tax Receipts	Population	Per Capita
1926 ..	4.61	.639	\$7.21	4.06	.821	\$4.95	3.94	.608	\$6.48	9.85	.606	\$16.25	52.27	9.439	\$5.54
1927 ..	3.84	.651	5.90	3.60	.841	4.28	3.66	.633	5.78	10.34	.623	16.60	54.13	9.624	5.62
1928 ..	4.18	.664	6.30	4.87	.862	5.65	4.67	.658	7.10	9.96	.641	15.54	53.92	9.822	5.49
1929 ..	5.34	.677	7.89	4.39	.883	4.97	5.55	.684	8.11	11.41	.659	17.31	65.78	10.016	6.57
1930 ..	4.72	.689	6.85	4.64	.903	5.14	4.89	.708	6.91	11.38	.676	16.83	73.89	10.195	7.25
1931 ..	4.35	.700	6.21	3.27	.922	3.55	3.99	.732	5.45	11.01	.694	15.87	71.45	10.363	6.90
1932 ..	5.09	.709	7.18	4.84	.933	5.19	5.07	.740	6.85	11.31	.704	16.07	73.27	10.492	6.98
1933 ..	6.72	.710	9.47	4.60	.932	4.94	4.82	.748	6.44	10.61	.712	14.90	75.38	10.667	7.07
1934 ..	6.75	.711	9.49	4.21	.932	4.52	5.05	.756	6.68	12.10	.725	16.69	75.79	10.810	7.01
1935 ..	6.98	.711	9.82	5.61	.931	6.03	5.49	.764	7.19	13.41	.735	18.25	91.10	10.921	8.34

TABLE H.—TOTAL OVERLAPPING (COMBINED) TAX RECEIPTS OF MUNICIPALITIES AND PROVINCES
CALCULATED ON A PER CAPITA BASIS, BY PROVINCES, 1926 TO 1934
(Tax receipts are in millions of dollars; population is in millions.)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita
1926 ..	.521	.087	\$5.99	8.58	.515	\$16.66	5.05	.396	\$12.75	73.96	2.603	\$28.41	116.25	3.164	\$36.74
1927 ..	.434	.087	4.99	8.47	.515	16.45	4.74	.398	11.91	79.22	2.657	29.82	124.55	3.219	38.69
1928 ..	.528	.088	6.00	8.93	.515	17.34	4.75	.401	11.85	72.43	2.715	26.68	124.15	3.278	37.87
1929 ..	.592	.088	6.73	9.26	.515	17.98	5.32	.404	13.17	81.51	2.772	29.41	139.39	3.334	41.81
1930 ..	.593	.088	6.74	9.29	.514	18.07	5.41	.406	13.33	87.62	2.825	31.02	150.05	3.386	44.32
1931 ..	.584	.088	6.64	9.29	.513	18.11	5.78	.408	14.17	89.13	2.874	31.01	151.05	3.432	44.01
1932 ..	.622	.089	6.99	9.62	.519	18.54	5.76	.413	13.95	92.65	2.910	31.84	149.98	3.475	43.16
1933 ..	.671	.089	7.54	9.11	.522	17.45	6.09	.420	14.50	92.52	2.970	31.15	147.55	3.564	41.40
1934 ..	.725	.089	8.15	10.23	.525	19.49	6.51	.425	15.32	72.60	3.018	24.06	147.31	3.629	40.59

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita	Tax Receipts	Population	Per Capita
1926 ..	22.15	.639	\$34.66	30.36	.821	\$36.98	16.37	.608	\$26.92	24.71	.606	\$40.78	297.96	9.439	\$31.57
1927 ..	21.37	.651	32.83	29.84	.841	35.48	14.23	.633	22.48	25.55	.623	41.01	308.40	9.624	32.05
1928 ..	22.09	.664	33.27	32.24	.862	37.40	14.25	.658	21.66	26.11	.641	40.73	305.48	9.822	31.10
1929 ..	24.80	.677	36.63	31.00	.883	35.11	16.55	.684	24.20	28.75	.659	43.63	337.18	10.016	33.66
1930 ..	24.04	.689	34.89	25.42	.903	28.15	15.31	.708	21.62	29.37	.676	43.45	347.10	10.195	34.05
1931 ..	23.88	.700	34.11	21.66	.922	23.49	14.25	.732	19.47	29.27	.694	42.18	344.90	10.363	33.93
1932 ..	22.38	.709	31.57	22.46	.933	24.07	17.10	.740	23.11	28.40	.704	40.34	348.98	10.492	33.26
1933 ..	23.32	.710	33.55	20.42	.932	21.91	16.48	.748	22.03	28.13	.712	39.51	344.80	10.667	32.32
1934 ..	24.94	.711	35.08	20.83	.932	22.35	17.27	.756	22.84	30.10	.725	41.52	350.52	10.810	30.58

TABLE I.—TOTAL OVERLAPPING TAX RECEIPTS OF MUNICIPALITIES AND PROVINCES CALCULATED AS A PERCENTAGE OF
TOTAL PROVINCIAL INCOME, BY PROVINCES, 1926 TO 1934
(Income and tax receipts in millions of dollars)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Income	Tax	Per	Income	Tax	Per	Income	Tax	Per	Income	Tax	Per	Income	Tax	Per
	Receipts	Receipts	Cent	Receipts	Receipts	Cent	Receipts	Receipts	Cent	Receipts	Receipts	Cent	Receipts	Receipts	Cent
1926	34.72	.521	1.50	187.68	8.58	4.57	135.74	5.05	3.72	1,425.09	73.96	5.19	2,265.89	116.25	5.13
1927	31.30	.434	1.40	180.61	8.47	4.69	129.63	4.74	3.66	1,508.14	79.22	5.25	2,428.28	124.55	5.13
1928	30.50	.528	1.73	217.98	8.93	4.10	127.38	4.75	3.73	1,605.48	72.43	4.51	2,598.17	124.15	4.78
1929	30.93	.592	1.91	195.48	9.26	4.74	130.39	5.32	4.08	1,719.95	81.51	4.74	2,739.50	139.39	5.09
1930	21.44	.593	2.77	169.06	9.29	5.49	115.16	5.41	4.70	1,423.01	87.62	6.16	2,280.22	150.05	6.58
1931	14.79	.584	3.95	141.08	9.29	6.58	93.41	5.78	6.19	1,136.61	89.13	7.84	1,806.05	151.05	8.36
1932	13.54	.622	4.59	107.15	9.62	8.98	80.67	5.76	7.14	913.89	92.65	10.14	1,461.60	149.98	10.26
1933	15.46	.671	4.34	111.20	9.11	8.19	74.66	6.09	8.16	870.54	92.52	10.63	1,464.44	147.55	10.07
1934	13.43	.725	5.40	115.78	10.23	8.84	82.67	6.51	7.87	937.95	72.60	7.73	1,604.23	147.31	9.18

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Income	Tax	Per	Income	Tax	Per	Income	Tax	Per	Income	Tax	Per	Income	Tax	Per
	Receipts	Receipts	Cent	Receipts	Receipts	Cent	Receipts	Receipts	Cent	Receipts	Receipts	Cent	Receipts	Receipts	Cent
1926	347.80	22.15	6.37	496.72	30.36	6.11	434.05	16.37	3.77	506.66	24.71	4.88	5,834.35	297.95	5.11
1927	335.96	21.37	6.36	564.96	29.84	5.28	551.36	14.23	2.58	509.00	25.55	5.02	6,239.24	308.405	4.94
1928	394.96	22.09	5.59	575.71	32.24	5.60	497.26	14.25	2.86	561.92	26.11	4.65	6,609.23	305.475	4.63
1929	311.08	24.80	7.97	332.19	31.00	9.33	345.88	16.55	4.78	579.50	28.75	4.96	6,384.90	337.175	5.28
1930	235.35	24.04	10.21	182.38	25.42	13.94	269.48	15.31	5.68	470.60	29.37	6.24	5,166.70	347.105	6.72
1931	203.91	23.88	11.71	153.81	21.66	14.08	272.38	14.25	5.23	340.82	29.27	8.59	4,162.86	344.899	8.29
1932	168.70	22.88	13.27	163.96	22.46	13.70	228.68	17.10	7.48	259.95	28.40	10.92	3,398.14	348.976	10.27
1933	165.93	23.82	14.36	142.72	20.42	14.31	211.92	16.48	7.78	277.98	28.13	10.12	3,334.85	344.796	10.34
1934	178.56	24.94	13.97	148.80	20.83	14.00	237.08	17.27	7.28	300.59	30.10	10.01	3,619.09	330.515	9.13

TABLE J.—TOTAL AND PER CAPITA NET DEBT^a BY PROVINCES, 1926 TO 1935
(Net debt is in millions of dollars; population is in millions.)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita
1926 ..	2,030	.087	\$23.33	27.68	.515	\$53.75	24.43	.396	\$61.69	68.57	2,603	\$26.34	164.55	3,164	\$52.01
1927 ..	2,189	.087	25.16	29.19	.515	56.08	26.12	.398	65.63	67.27	2,657	25.32	180.06	3,219	55.94
1928 ..	2,382	.088	27.07	32.97	.515	64.02	29.11	.401	72.59	66.42	2,715	24.46	199.35	3,278	60.82
1929 ..	2,560	.088	29.09	34.60	.515	67.18	33.87	.404	83.84	63.91	2,772	23.06	217.99	3,334	65.38
1930 ..	2,794	.088	31.75	37.34	.514	72.65	40.96	.406	100.89	60.40	2,825	21.38	247.89	3,386	73.21
1931 ..	3,343	.088	37.99	40.13	.513	78.23	45.02	.408	110.34	63.49	2,874	22.09	287.87	3,432	83.88
1932 ..	3,632	.089	40.81	42.34	.519	81.58	46.76	.413	113.22	83.36	2,910	28.65	328.65	3,475	94.58
1933 ..	3,911	.089	43.94	48.19	.522	92.32	48.28	.420	114.95	103.40	2,970	34.82	356.35	3,564	99.99
1934 ..	4,269	.089	47.97	52.16	.525	99.35	49.89	.425	117.39	121.24	3,018	40.17	414.94	3,629	114.34
1935 ..	5,222	.089	58.67	58.46	.527	110.93	54.58	.429	127.23	141.51	3,062	46.22	461.84	3,673	125.74

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita	Net Debt	Population	Per Capita
1926 ..	39.98	.639	\$62.57	26.55	.821	\$32.34	53.26	.608	\$87.60	48.07	.606	\$79.32	455.12	9,439	\$48.22
1927 ..	40.67	.631	62.47	26.53	.841	31.55	56.67	.633	89.53	50.44	.623	80.96	479.14	9,624	49.79
1928 ..	42.60	.664	64.16	28.15	.862	32.66	59.43	.658	90.32	54.11	.641	84.42	514.52	9,822	52.38
1929 ..	44.72	.677	66.06	36.38	.883	41.20	65.06	.684	95.12	62.53	.659	94.89	561.62	10,016	56.07
1930 ..	44.39	.689	64.43	51.75	.903	57.31	74.09	.708	104.65	74.52	.676	110.24	634.13	10,195	62.20
1931 ..	56.92	.700	81.31	73.19	.922	79.38	86.60	.732	118.31	84.83	.694	122.23	741.39	10,363	71.54
1932 ..	64.48	.709	90.94	79.63	.933	85.35	94.70	.740	127.97	90.70	.704	128.83	834.25	10,492	79.51
1933 ..	66.21	.710	93.25	88.13	.932	94.56	99.93	.748	133.60	94.01	.712	132.04	908.41	10,667	85.16
1934 ..	68.01	.711	95.65	105.38	.932	113.07	107.45	.756	142.13	97.36	.725	134.29	1,020.70	10,810	94.42
1935 ..	72.77	.711	102.35	121.10	.931	130.08	115.09	.764	150.64	101.57	.735	138.19	1,132.14	10,921	103.67

^a Net debt includes gross direct liabilities less sinking funds, current assets, full revenue-bearing loans, and utilities.

TABLE K.—Net Debt^a OF PROVINCES AS A PERCENTAGE OF TOTAL PROVINCIAL INCOME, 1926 TO 1935
(Income and net debt in millions of dollars)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent
1926	34.72	2.030	5.87	187.68	27.68	14.74	135.74	24.43	18.00	1,425.09	68.57	4.81	2,265.89	164.55	7.26
1927	31.30	2.189	6.99	180.61	29.19	16.16	129.63	26.12	20.14	1,508.14	67.27	4.46	2,428.28	180.06	7.42
1928	30.50	2.382	7.81	217.98	32.97	15.12	127.38	29.11	22.85	1,605.48	66.42	4.14	2,598.17	199.35	7.67
1929	30.93	2.560	8.28	195.48	34.60	17.70	130.39	33.87	25.97	1,719.95	63.91	3.72	2,739.50	217.99	7.96
1930	21.44	2.794	13.03	169.06	37.34	22.09	115.16	40.96	35.56	1,423.01	60.40	4.24	2,280.22	247.89	10.87
1931	14.79	3.343	22.60	141.08	40.13	28.44	93.41	45.02	48.20	1,136.61	63.49	5.59	1,806.05	287.87	15.94
1932	13.54	3.632	26.82	107.15	42.34	39.51	80.67	46.76	57.96	913.89	83.36	9.12	1,461.60	328.65	22.48
1933	15.46	3.911	25.30	111.20	48.19	43.34	74.66	48.28	64.67	870.54	103.40	11.88	1,464.44	356.35	24.33
1934	13.43	4.269	31.79	115.78	52.16	45.05	82.67	49.89	60.35	937.95	121.24	12.93	1,604.23	414.94	25.86
1935	14.58	5.222	35.82	127.20	58.46	45.96	91.30	54.58	59.78	995.12	141.51	14.22	1,734.60	461.84	26.62

YEAR	SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES					
	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent	Income	Net Debt	Per Cent			
1926	347.80	39.98	11.50	496.72	26.55	5.35	434.05	53.26	12.27	506.66	48.07	9.49	5,834.35	455.12	7.80
1927	335.96	40.67	12.11	564.96	26.53	4.70	551.36	56.67	10.28	509.00	50.44	9.91	6,239.24	479.14	7.68
1928	394.96	42.60	10.78	575.71	28.15	4.89	497.23	59.43	11.95	561.82	54.11	9.63	6,609.23	514.52	7.78
1929	311.08	44.72	14.38	332.19	36.38	10.95	345.88	65.06	18.81	579.50	62.53	10.79	6,384.90	561.62	8.80
1930	235.35	44.39	18.86	182.38	51.75	28.37	269.48	74.09	27.49	470.60	74.52	15.83	5,166.70	634.13	12.27
1931	203.91	56.92	27.91	153.81	73.19	47.58	272.38	86.60	31.79	340.82	84.83	24.88	4,162.86	741.39	17.81
1932	168.70	64.48	38.22	163.96	79.63	48.57	228.68	94.70	41.41	259.95	90.70	34.89	3,398.14	834.25	24.55
1933	165.93	66.21	39.91	142.72	88.13	61.75	211.92	99.93	47.15	277.98	94.01	33.82	3,334.85	908.41	27.24
1934	178.56	68.01	38.09	148.80	105.38	70.82	237.08	107.45	45.32	300.59	97.36	32.39	3,619.09	1,020.70	28.20
1935	172.04	72.77	42.30	189.72	121.10	63.83	225.89	115.09	50.95	327.08	101.57	31.05	3,877.53	1,132.14	29.20

^a Net debt includes gross direct liabilities less sinking funds, current assets, full revenue-bearing loans, and utilities.

TABLE L.—TOTAL OVERLAPPING OR COMBINED DEBT OF MUNICIPALITIES AND PROVINCES, BY PROVINCES, 1926 TO 1934^a
(In millions of dollars)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total
1926	2.030	1.25 ^b	3.280	27.68	26.28	53.96	24.43 ^a	17.09 ^b	41.52	68.57	296.75	365.32	164.55	413.47	578.02
1927	2.189	1.45	3.639	29.19	28.38	57.57	26.12	15.71	41.83	67.27	313.42	380.69	180.06	434.46	614.52
1928	2.382	1.52	3.902	32.97	29.05	62.02	29.11	19.58	48.69	66.42	335.78	402.20	199.35	435.91	635.26
1929	2.560	1.60	4.160	34.60	29.03	63.63	33.87	21.34	55.21	63.91	352.29	416.20	217.99	451.94	669.93
1930	2.794	1.86	4.654	37.34	30.18	67.52	40.96	20.94	61.90	60.40	384.76	445.16	247.89	485.28	733.17
1931	3.343	1.96	5.303	40.13	31.39	71.52	45.02	22.16	67.18	63.49	427.82	491.31	237.87	499.00	786.87
1932	3.632	2.13	5.762	42.34	31.61	73.95	46.76	24.75	71.51	83.36	463.61	546.97	328.65	504.76	833.41
1933	3.911	2.14	6.051	48.19	32.77	80.96	48.28	24.67	72.95	103.40	479.61	583.01	356.35	494.43	850.78
1934	4.269	2.35	6.619	52.16	33.32	85.48	49.89	26.50	76.39	121.24	565.22	686.46	414.94	483.95	898.89

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total	Pro- vincial	Municipal	Total
1926	39.98	80.72	120.70	26.55	54.84	81.39	53.26	56.95	110.21	48.07	102.85	150.92	455.12	1,050.20	1,505.32
1927	40.67	83.02	123.69	26.53	54.36	80.89	56.67	62.41	119.08	50.44	107.38	157.82	479.14	1,100.59	1,579.73
1928	42.60	85.65	128.25	28.15	53.09	81.24	59.43	63.43	122.86	54.11	110.12	164.23	514.52	1,134.13	1,648.65
1929	44.72	85.90	130.62	36.38	54.91	91.29	65.06	78.47	143.53	62.53	118.48	181.01	561.62	1,193.96	1,755.58
1930	44.39	84.88	129.27	51.75	59.00	110.75	74.09	78.64	152.73	74.52	125.83	200.35	634.13	1,271.37	1,905.50
1931	56.92	91.62	148.54	73.19	59.15	132.34	86.60	78.68	165.28	84.83	129.91	214.74	741.39	1,341.69	2,083.08
1932	64.48	92.47	156.95	79.63	59.24	138.87	94.70	76.89	171.59	90.70	129.33	220.03	834.25	1,384.79	2,219.04
1933	66.21	96.08	162.29	88.13	57.29	145.42	99.93	69.46	169.39	94.01	128.09	222.10	908.41	1,384.54	2,292.95
1934	68.01	90.77	158.78	105.38	55.69	161.07	107.45	67.89	175.34	97.36	127.17	224.53	1,020.70	1,452.85	2,473.56

^a In the case of the municipalities where it is impossible to obtain comparable figures on debt incurred for revenue-bearing utilities, sinking funds, etc., *gross debt* data have been used. For the provinces net debt figures have been used.

^b Data available for certain municipalities only for all figures in this column.

TABLE M.—TOTAL OVERLAPPING OR COMBINED DEBT OF MUNICIPALITIES AND PROVINCES
CALCULATED ON A PER CAPITA BASIS, BY PROVINCES, 1926 TO 1934
(Debt is in millions of dollars; population is in millions.)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita
1926 ..	3.250	.087	\$37.70	53.96	.515	\$104.78	41.52	.396	\$104.85	365.32	2.603	\$140.35	578.02	3.164	\$132.69
1927 ..	3.639	.087	41.83	57.57	.515	111.79	41.83	.398	105.10	380.69	2.657	143.28	614.52	3.219	190.90
1928 ..	3.902	.088	44.34	62.02	.515	120.43	48.69	.401	121.42	402.20	2.715	148.14	635.26	3.278	193.79
1929 ..	4.160	.088	47.27	63.63	.515	123.55	55.21	.404	136.66	416.20	2.772	150.14	669.93	3.334	200.94
1930 ..	4.654	.088	52.89	67.52	.514	131.36	61.90	.406	152.46	445.16	2.825	157.58	733.17	3.386	216.53
1931 ..	5.303	.088	60.26	71.52	.513	139.42	67.18	.408	164.66	491.31	2.874	170.95	786.87	3.432	229.27
1932 ..	5.702	.089	64.74	73.95	.519	142.49	71.51	.413	173.15	546.97	2.910	187.96	833.41	3.475	239.83
1933 ..	6.051	.089	67.99	80.96	.522	155.10	72.95	.420	173.69	583.01	2.970	196.30	850.78	3.564	238.71
1934 ..	6.619	.089	74.37	85.48	.525	162.82	76.39	.425	179.74	686.46	3.018	227.46	898.89	3.629	247.70

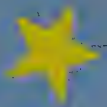
YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita	Total Debt	Population	Per Capita
1926 ..	120.70	.639	\$188.89	81.39	.821	\$ 99.14	110.21	.608	\$181.27	150.92	.606	\$249.05	1,505.32	9.439	\$159.48
1927 ..	123.69	.651	190.00	80.89	.841	96.18	119.08	.633	188.12	157.82	.623	253.32	1,579.73	9.624	164.14
1928 ..	128.25	.664	193.15	81.24	.862	94.25	122.86	.658	186.72	164.23	.641	256.21	1,648.65	9.832	167.85
1929 ..	130.62	.677	192.94	91.29	.883	103.39	143.53	.684	209.84	181.01	.659	274.67	1,755.58	10.016	175.28
1930 ..	129.27	.689	187.62	110.75	.903	122.65	152.73	.708	215.72	200.35	.676	296.38	1,905.50	10.195	186.91
1931 ..	148.54	.700	212.20	132.34	.922	143.54	165.28	.732	225.79	214.74	.694	309.42	2,083.08	10.363	201.01
1932 ..	156.95	.709	221.37	138.87	.933	148.84	171.59	.740	231.88	220.03	.704	312.54	2,219.04	10.492	211.50
1933 ..	162.29	.710	228.58	145.42	.932	156.03	169.39	.748	226.46	222.10	.712	311.94	2,292.95	10.667	214.96
1934 ..	158.78	.711	223.32	161.07	.932	172.82	175.34	.756	231.93	224.53	.725	309.70	2,473.56	10.810	223.82

TABLE N.—TOTAL OVERLAPPING DEBT OF MUNICIPALITIES AND PROVINCES CALCULATED AS A PERCENTAGE OF
TOTAL PROVINCIAL INCOME, BY PROVINCES, 1926 TO 1934
(Debt and income in millions of dollars)

YEAR	PRINCE EDWARD ISLAND			NOVA SCOTIA			NEW BRUNSWICK			QUEBEC			ONTARIO		
	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent
1926	34.72	3,280	9.45	187.68	53.96	28.75	135.74	41.52	30.59	1,425.09	365.32	25.63	2,265.89	578.02	25.51
1927	31.30	3,639	11.63	180.61	57.57	31.87	129.63	41.83	32.27	1,508.14	380.69	25.24	2,428.28	614.52	25.31
1928	30.50	3,902	12.79	217.98	62.02	28.45	127.38	48.69	38.22	1,605.48	402.20	25.05	2,598.17	635.26	24.45
1929	30.93	4,160	13.45	195.48	63.63	32.55	130.39	55.21	42.34	1,719.95	416.20	24.20	2,739.50	669.93	24.45
1930	21.44	4,654	21.71	169.06	67.52	39.94	115.16	61.90	53.75	1,423.01	445.16	31.28	2,280.22	733.17	32.15
1931	14.79	5,303	35.86	141.08	71.52	50.69	93.41	67.18	71.92	1,136.61	491.31	43.22	1,806.05	736.87	40.57
1932	13.54	5,762	42.56	107.15	73.95	69.02	80.67	71.51	88.65	913.89	546.97	59.85	1,461.60	833.41	57.02
1933	15.46	6,051	39.14	111.20	80.96	72.81	74.66	72.95	97.71	870.54	583.01	66.97	1,464.44	850.78	58.10
1934	13.43	6,619	49.29	115.78	85.48	73.83	82.67	76.39	92.40	937.95	686.46	73.19	1,604.23	898.89	56.03

YEAR	MANITOBA			SASKATCHEWAN			ALBERTA			BRITISH COLUMBIA			ALL PROVINCES		
	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent	Total Income	Total Debt	Per Cent
1926	347.80	120.70	34.70	496.72	81.39	16.38	434.05	110.21	25.39	506.66	150.92	29.79	5,834.35	1,505.32	25.80
1927	335.96	123.69	36.82	564.96	80.89	14.32	551.36	119.08	21.60	509.00	157.82	31.00	6,239.24	1,579.73	25.32
1928	394.96	128.25	32.47	575.71	81.24	14.11	497.23	122.86	24.71	561.32	164.23	29.23	6,609.23	1,648.65	24.94
1929	311.08	130.62	41.99	332.19	91.29	27.48	345.88	143.53	41.50	579.50	181.01	31.24	6,384.90	1,755.58	27.49
1930	235.35	129.27	54.91	182.38	110.75	60.72	269.48	132.73	56.67	470.60	200.35	42.57	5,166.70	1,905.50	36.88
1931	203.91	148.54	72.85	153.81	132.34	86.04	272.38	165.28	60.68	340.32	214.74	63.01	4,162.86	2,083.08	50.04
1932	168.70	156.95	93.03	163.96	138.87	84.70	228.68	171.59	75.04	259.95	220.03	84.64	3,398.14	2,219.04	65.30
1933	165.93	162.29	97.81	142.72	145.42	101.89	211.92	169.39	79.93	277.98	222.10	79.90	3,334.85	2,292.95	68.76
1934	178.56	158.78	88.92	148.80	161.07	108.25	237.08	175.34	73.96	300.59	224.53	74.69	3,619.09	2,473.56	68.35

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Part VI

*The Financial Problems of Municipalities
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PART VI

FINANCIAL PROBLEMS OF MUNICIPALITIES AND SCHOOL DISTRICTS

The preamble to the terms of reference to this Commission states *inter alia* that "representations have been made by provincial governments that municipal governments, which have been created by, and derive their powers and responsibilities from, the provinces, are confronted with similar problems, and, in particular, necessary municipal responsibilities have placed an undue burden on real estate and are thereby retarding economic recovery, also that the relations between provinces and municipalities are an essential part of provincial finances."

We propose therefore to portray in summary form the administrative system of local government in Manitoba, and to indicate in what manner the financial affairs of the municipalities and school districts are related to those of the province. It is hoped that this submission, detailed and technical as it may appear, will provide a background for the submissions of the municipalities, so that their responsibilities, burdens, and problems will receive the Commission's understanding and sympathetic consideration.

HISTORICAL BACKGROUND

When the province of Manitoba was formed in 1870 its population was small and its area was what is now known as townships 1 to 17, in ranges 1 to 11 east and 1 to 11 west of the Principal Meridian. The boundaries were slightly altered in 1877, but the area was not increased. In 1881 the province was enlarged to include townships 1 to 44, in ranges 1 to 17 east and 1 to 29 west of the Principal Meridian. The province was again enlarged when the present boundaries were established in 1912.

Under the British North America Act the province was given jurisdiction over municipal institutions, and in 1873 the provincial legislature first enacted legislation respecting municipalities. By reason of the sparseness of the population, their limited needs, and their inexperience in local government, the first Municipal Act, which dealt with the jurisdiction of the municipalities, and provided for the raising of municipal revenues, was a rather modest enactment of some 48 sections. Municipalities were incorporated by Letters Patent under the Great Seal, and whatever jurisdiction they were given under the statute was subject to confirmation or disallowance by the Lieutenant-Governor. Municipal revenues were raised by levies on real and personal property, and it was provided that no tax should be levied by the council upon real estate and improvements exceeding in any one year one per cent of the assessed value thereof.

After the boundaries of the province were substantially enlarged in 1881, further legislation appeared necessary to meet municipal needs. In the year 1883 the Municipalities Act was passed, establishing 26 counties, 99 municipalities, and 3 judicial districts. Municipal councils were elected by a direct vote of the qualified electors, and the county councils by the several municipal councils within each county. The judicial district boards consisted of the wardens of the several counties and the mayors of cities and towns within the judicial district. This legislation was revised in 1884, and the county councils abolished, their former jurisdiction being given to municipal councils and judicial district boards. The judicial district boards continued to function until 1886, when they, too, were abolished, and the office of the Municipal Commissioner for the province was established.

To appreciate the increase in municipal activities in recent years it is interesting to note that in 1905, the first year for which statistics are available, there were in the province 1,360 school units, and 113 municipal units, consisting of 86 rurals, 11 villages, 14 towns, and 2 cities with a total municipal assessment of real and personal property of \$153,241,706.00 and total levies for all purposes of \$3,441,961.78, and with a total municipal and school district capital liability of \$11,854,149.70. In 1936 there were 2,270 school units, and 174 municipal units, consisting of 117 rurals, 22 villages, 30 towns, 4 cities, and 1 municipal district, with a total municipal assessment of \$477,221,364.00 and levies of \$18,054,688.30, and with a total municipal and school district capital liability of \$112,214,300.77.

LOCAL GOVERNMENT ADMINISTRATION

It is now proposed to briefly outline the present administrative system of local government in Manitoba.

Municipalities.—The 170 incorporated municipal units, consisting of 112 rural municipalities, 5 suburban municipalities, 22 villages, 30 towns, and 1 municipal district, are in certain respects subject by statute to the jurisdiction of the Minister of Municipal Affairs, and their accounts are audited by nine municipal auditors appointed by the Lieutenant-Governor-in-Council, and paid by the municipalities on the basis of a tariff prescribed by order-in-council. Besides these incorporated municipal units there exist unincorporated village districts. An elected committee of three persons has certain limited administrative powers over the funds which are obtained by the unincorporated village from the municipality within which it is situate.

The cities of Winnipeg, St. Boniface, and Portage la Prairie have special charters, and with minor exceptions are not under the jurisdiction of the Minister of Municipal Affairs, their accounts being audited by auditors appointed by each city. The city of Brandon originally had a special charter, but is now governed by a number of special acts and by the general municipal legislation. Certain general legislation also applies to the city of Portage la Prairie.

Within their delegated powers and subject to the provisions of the general municipal legislation and their respective special charters, all the municipalities are self-governing units.

Under the provisions of the Municipal Act and the Municipal and Public Utility Board Act the Lieutenant-Governor-in-Council, except for the city of Winnipeg and the school district of Winnipeg, has certain powers over the affairs of municipalities that find themselves in financial difficulties. These may be summarized as follows:

1. The municipality may be supervised by requiring it annually to submit its financial programme for approval. If under supervision, all cheques may be countersigned by the supervisor.
2. The elected council may be discharged from office and in its place, and having all its powers, an administrator may be appointed.
3. The municipality may be disorganized and its affairs wound up by a receiver. In this case, the municipality ceases to function except for the purpose of winding up, and becomes part of unorganized territory.

At the present time six rural municipalities have been disorganized, five rurals and one village are under administrators, and two cities, one town, and four suburban municipalities are being supervised.

School Districts.—Besides the municipal units there are in Manitoba 2,270 school districts of varying types established under the provisions of the Public Schools Act; of these, 254 are in the unorganized and disorganized portions of the province. Normally, the control of the district is vested in a board of school trustees chosen by the electors of the district, but if the financial position of a school district is unsatisfactory it may be placed under the control of an official trustee appointed by the Lieutenant-Governor-in-Council. There are approximately 237 school districts under official trustees. Within their delegated powers and subject to the provisions of the Public Schools Act and the jurisdiction given under that act to the Minister of Education, school districts are also self-governing units. They have power to borrow money and issue debentures, but do not, except in unorganized and disorganized territory, impose taxes. In organized territory, apart from the general statutory school levy and government grants, they requisition the municipality for their requirements, and the municipalities account to the school boards for the general and special levies. In unorganized and disorganized territory the school boards or official trustees levy and collect taxes under the supervision of the Manitoba Tax Commission. School districts in unorganized and disorganized territory are divided into nine groups, each in charge of an assessor-collector appointed by the Lieutenant-Governor-in-Council and supervised by the Manitoba Tax Commission.

Department of Municipal Affairs.—The office of the Municipal Commissioner was first established in 1886 to take over the functions of the existing judicial district boards. The Municipal Commissioner is a member of the

Executive Council and the head of the Department of Municipal Affairs. His staff consists of a deputy minister, provincial municipal auditor, chief clerk, and two stenographers.

Statistics.—From 1905 to 1930 municipal statistics were compiled from returns made to the Municipal Commissioner by the treasurers of the municipalities. To obtain uniformity and greater accuracy the statistics have since 1931 been compiled by the municipal auditor in conjunction with the municipal treasurer after the completion of the annual audit. Statistics are compiled in this manner for rural municipalities, suburbans, villages, and towns, but are not available for cities, as the latter are not audited by municipal auditors. There have been some variations in the method of compilation between 1931 and 1936, and any information included herein respecting cities is based on information furnished by them.

Manitoba Tax Commission.—In 1920 the Manitoba Tax Commission was established, mainly as the result of the recommendations of the Assessment and Taxation Commission, which reported in December, 1919.

The main functions of the Manitoba Tax Commission are to generally supervise the local municipal assessors and the administration of the assessment laws of the province, to make and revise the equalized assessment which forms the basis for the levying of the Municipal Commissioner's Levy, and, under the Minister of Education, to supervise the assessing and levying of taxes in school districts in unorganized and disorganized territory.

Municipal and Public Utility Board.—In 1926 the Municipal and Public Utility Board was created. Along with jurisdiction over public utilities, it has special powers respecting the financial affairs of local authorities, i.e., municipalities and school districts. It approves of all capital borrowings except for the city of Winnipeg. It is also empowered, when requested, to make special investigations into the financial affairs of any municipality or school district, except the city of Winnipeg and the Winnipeg school district. Subject to the approval of the Lieutenant-Governor-in-Council, it may appoint supervisors of local authorities, and upon certain conditions may recommend the adjustment of their indebtedness. A supervisor, when appointed, controls the annual estimates and expenditures of the local authority. There exists an appeal from the supervisor to the Board. The Board also has some general powers in connection with the approval of plans of sub-divisions, the cancellation of existing plans, the compromise of arrears of taxes and the variation or cancellation of building restriction caveats.

Land Drainage Maintenance Boards.—From 1896 until 1929 land drainage districts were established in the province of Manitoba for the purpose of constructing drainage works. Debentures covering the cost were issued by the provincial government and were secured by drainage levies which were a first charge against the land in the drainage districts. The treasurer of the municipality was appointed an officer of the province for the purpose of levying and collecting drainage levies and accounting to the government for the

proceeds of these levies. Originally, the municipality was not liable for the debentures but was responsible for maintaining the drainage works.

In 1935 the legislature passed the Land Drainage Arrangement Act, which provided for the appointment of a Commission to: (1) ascertain and determine in each municipality the amount of drainage debenture debt for which land, subject to levies under the Land Drainage Act, was liable; (2) ascertain and determine the amount standing to the credit of such land in the drainage sinking funds and interest accounts; (3) inquire and report as to the ability of land to bear the levies imposed; and (4) confer with the municipalities in drainage districts for the assumption by the municipality of the drainage debenture debt outstanding, and recommend the terms and conditions of such assumption of debt.

The Commission found that as at the 30th day of April, 1935, the land in the various drainage districts was liable for a net debt of \$3,963,121.97 and recommended that the province assume \$1,782,897.19 of this debt, that the municipalities assume \$2,180,224.78, and that the province refund to certain individual municipalities an amount totalling \$50,853.97. These recommendations, with minor alterations, were approved by orders-in-council.

The Commission also recommended, and there have since been established, drainage district maintenance boards whose duty is to obtain and administer the funds to maintain the drainage works. The province has agreed to make an annual contribution to these maintenance funds; the balance is to be obtained through annual levies made by the municipalities on the lands in the maintenance districts.

Practically all these adjustments, including the assumption by the municipalities of their portion of the debt, were carried out during the year 1936. As part of the settlement there was turned over to the municipalities as municipal assets approximately \$1,000,000 of arrears of drainage levies, and the municipalities have given to the Provincial Treasurer municipal debentures representing the proportion of the debt they assumed. The original debentures issued by the province still remain outstanding in the hands of the public, and the municipal drainage debentures held by the Provincial Treasurer will be applied against payments made by the province in liquidating the outstanding debt.

Municipal Commissioner Levies.—When the office of the Municipal Commissioner was established in 1886 he took over the assets and assumed the liabilities of all the existing judicial district boards. The assets consisted of judicial buildings, the liabilities were the debentures issued when the buildings were constructed.

Originally, under the Municipal Commissioner's Act, the Municipal Commissioner was authorized to levy on the municipalities within the judicial districts in the province, on the basis of an equalized assessment, the sums required to pay the interest and sinking funds for the retirement of the judicial district debentures and the expenses of the counties. These levies were first

FINANCIAL PROBLEMS OF MUNICIPALITIES AND SCHOOL DISTRICTS

made in the year 1889. As the demand for services of a special nature arose, and money had to be provided therefor, the Municipal Commissioner from time to time was required by statute to make additional levies to provide for these services. The more important of these and the periods of imposition were as follows:

- Provincial Board of Health, 1893 to 1925, both inclusive
- Manitoba Sanatorium for Tuberculosis, 1914 and still continuing
- Patriotic Fund, 1916 to 1919, both inclusive
- Mothers' Allowance, or Child Welfare, 1916 to 1925, both inclusive
- Supplementary Revenue, 1918 to 1929, both inclusive
- Soldiers' Taxation Relief, 1924 and still continuing, except for years 1931 and 1932
- Old-Age Pensions, 1928 and still continuing
- Good Roads, 1928 and still continuing against certain municipalities
- Public Health Act, 1929 to 1930
- Cancer Research, 1936 and still continuing

Good roads levies are made against certain municipalities to pay their respective shares of the cost of construction of highways through these municipalities. The municipality's share of the expenditure for these highways was financed by the government, and amortized levies over a period of years were set up to discharge the debt. Municipal debentures have not been issued for this debt, and it shows as a deferred liability in the statistics furnished by the department.

In addition to the levies made against organized municipalities, Municipal Commissioner's levies are made also against the unincorporated town of Pine Falls and against school districts in unorganized territory. These levies are in addition to the levies made by school districts in unorganized territory for the support of schools. Levies in unorganized territory are made through the medium of the Manitoba Tax Commission.

At present Municipal Commissioner's levies include the Old-Age Pension Levy, Soldiers' Taxation Relief Levy, District Levy, County Levy, Cancer Research Levy, Good Roads Levy, and Manitoba Sanatorium Levy. These levies are made against all municipalities, except the Good Roads Levy and the Sanatorium Levy. The former has already been explained and the latter is not made against cities. Each municipality, except the cities, is also charged with the cost of the bonding of its respective municipal treasurer, which is arranged through the Municipal Commissioner. In unorganized territory, besides the above general levies, a two-mill levy is made for hospitalization, and in certain areas levies are made for nursing stations.

RELATION BETWEEN PROVINCIAL AND LOCAL GOVERNMENT FINANCE

From this brief summary of the administrative system of local government in Manitoba it is evident that the financial affairs of the municipalities and school districts are related to those of the province. It is now proposed briefly to summarize these relationships so that the connection between provincial and local government finance will be more evident.

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The federal and provincial governments annually contribute towards the cost of unemployment relief and relief works. The province has loaned money to certain municipalities for their share of relief and relief works, and in turn has, for the most part, borrowed this money from the Dominion.

The Municipal Commissioner annually makes levies on the municipalities in organized territory and school districts in unorganized and disorganized territory for the purposes explained above.

The province has financed the cost of certain projects for the benefit of municipalities, in some cases issuing provincial debentures and in other cases guaranteeing debentures issued by the municipalities. Under this head there are four classifications:

1. Judicial district debentures were issued partly by the province and partly by the judicial districts before they were taken over by the Municipal Commissioner. In each case the interest and sinking fund requirements are levied through the Municipal Commissioner's Levy.

2. The municipal share of certain highway costs was financed by the province and is recouped through annual levies made by the Municipal Commissioner.

3. The cost of construction of drainage works in land drainage districts was financed by the province, the province issuing the debentures against which it now holds municipal debentures for the adjusted portion assumed by the municipalities.

4. The province has guaranteed municipal good road debentures, which represent a share of the cost of construction of roads under the Good Roads Act, and debentures for the cost of municipal telephone systems.

Under the Housing Act the province borrowed money from the Dominion government and the public. This money was loaned to the municipalities and the province took municipal debentures as security for the repayment of these loans.

Under the Treasury Act the province has guaranteed repayment of certain moneys borrowed by municipalities and school districts for current purposes and the repayment of moneys borrowed by the municipality for the purpose of furnishing seed grain and fodder to farmers.

Annually the province appropriates certain moneys in its budget for these purposes: (1) contributing towards the cost of roads and drainage works undertaken by municipalities, and constructing certain roads and drainage works in unorganized territory; (2) contributing to the maintenance funds established by municipalities in drainage maintenance districts under the Land Drainage Arrangement Act, 1935; (3) providing for salaries, supplies, and expenses of judicial district buildings; (4) making grants to school districts.

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From this brief summary it will appear that the financial affairs of the province and the local governing units, in certain respects, are closely related.

LOCAL GOVERNMENT FINANCIAL ADMINISTRATION

It may be well to briefly outline some of the main features of municipal financial administration. Some of the following remarks do not apply to cities, operating under special charters. Generally speaking, municipal revenues are obtained from levies on land, personal property, business tax, poll tax, and licenses. Undoubtedly, the main source of revenue is the levy on land.

Assessments for the purpose of levying taxation are made by local assessors appointed by the municipal council. Land apart from buildings is assessed at its value. Buildings are assessed at two-thirds of their value. Buildings on land improved for grain-growing, stock-raising, or market gardening, and comprising certain acreages, are assessed but are not taxable. Valuations made by the local assessors are subject to appeal, first to the municipal council sitting as a court of revision, and then to a county court judge or the Manitoba Tax Commission.

Annually, before the last day of February, the municipality is required to make up its budget, and subsequently to levy rates to raise the sums required by the estimates. Rates may apply generally over the whole municipality, or only to special areas designated in the by-laws, and are based on assessments, or in the case of local improvements on frontage. Every municipality has power, within the statutory limitation of rates and with the approval of the Municipal and Public Utility Board, to pass a by-law requiring the levying of a special rate annually for a period not exceeding six years, and to collect over and above the current requirements of the municipality an amount not exceeding in any year ten per cent of such requirements, or to set aside moneys of the municipality not presently required, for the purpose of creating a reserve fund for current or capital expenditures, for local improvement purposes, or for the purpose of purchasing outstanding debentures of the municipality.

The Municipal Act provides that the annual rate to be levied by the municipality for general purposes in any year shall not exceed in the case of a rural municipality or a municipal district more than three cents on the dollar, and in the case of a city, town, or village more than two cents on the dollar, of assessed value of the whole rateable property within the corporation, according to the last revised assessment roll. This is exclusive of school, Municipal Commissioner, and local improvement rates, also any rate imposed to pay principal and interest on an issue of debentures to pay off or retire debentures of the corporation, or to fund an operating deficit or current or past due liabilities, or to assume debt under the Land Drainage Arrangement Act, 1935.

The Municipal Act also provides that the aggregate debenture debt of cities, towns, villages, and suburban municipalities, respectively, shall not exceed the following amounts:

1. In municipalities having a population of not less than ten thousand the aggregate debenture debt, exclusive only of sinking funds actually on hand, shall not exceed the sum of two hundred dollars per head of the population of such municipality.

2. In municipalities having a population of not less than two thousand and not exceeding ten thousand the aggregate debenture debt, exclusive only of sinking funds actually on hand, shall not exceed the sum of one hundred and fifty dollars per head of the population of such municipality.

3. In municipalities having a population not exceeding two thousand the aggregate debenture debt, exclusive only of sinking funds actually on hand, shall not exceed the sum of one hundred dollars per head of the population of such municipality.

However, the Municipal Board may authorize a municipality to incur a debt or debts which will increase the aggregate debenture debt of such municipality to an amount exceeding the limitations mentioned. The aggregate debenture debt of a municipal district shall not exceed the amount provided in its Letters Patent and, in default of any such provision, the amount prescribed by the Municipal Board.

A municipality, except it is disorganized, cannot be forced into liquidation like a mercantile corporation. If a writ of execution is issued against a municipal corporation, it may be endorsed with a direction to the sheriff to levy the amount thereof by rate against assessable property, which rate shall not exceed in any one year ten mills on the dollar. No judgment creditor of a municipal corporation can have any lien or charge on any lands of the corporation, by reason of the registration of a certificate of judgment in any registry office or land titles office.

MATERIAL AVAILABLE FOR COMMISSION

To enable the Commission to ascertain the present financial position of the municipalities in Manitoba, there will be filed with the Commission, if it so desires, the following material:

1. A map showing the municipalities of the province.

2. Statistical information respecting the municipalities of the province for the year ending December 31, 1936, and, if available, for any other year which may be required.

3. Comparative summarized statistics for the municipalities in Manitoba, excepting cities, for the years 1930 to 1936.

4. Individual statistical reports for each municipality, excepting cities, for the year ending December 31, 1936.

5. Consolidated statistical report for 1936 for (1) all municipalities, except cities, (2) rural municipalities, (3) villages, (4) towns, and (5) suburban municipalities, showing, *inter alia*, consolidated statement of revenues and expenses, receipts and disbursements for each group.

The Department of the Municipal Commissioner has in varying forms statistics covering assessment, tax levies, and debenture debt commencing with the year 1905, tax arrears commencing with 1922, and, except for cities, tax collections from all sources commencing with 1930. For some of the years there is only one copy of these statistics available, but the Department, upon request, will furnish the Commission with any information it has available.

There has been prepared and included as Appendix A to this brief a statement covering the years 1905 to 1936, showing the population, assessments, tax levies, tax arrears, and debenture debt of municipalities and school districts. The figures may not be entirely accurate, but they are sufficient for a general survey. In 1936 Manitoba municipalities had a population of 648,048, a total municipal assessment of \$477,221,364.00, and a live municipal assessment of \$448,248,833.00. The municipal, judicial district, and school district capital debt was \$114,010,180.85 with sinking funds having a book value of \$43,785,454.54, leaving a net capital debt of \$70,224,726.31. The municipal tax levy for the year 1936 was \$18,054,688.30 and the total municipal tax arrears amounted to \$35,321,132.86.

GENERAL SUBMISSIONS ON MUNICIPAL FINANCE

Having surveyed the administrative system of local government in Manitoba and indicated generally the relations between municipal and provincial finance, it is now the intention of this report to refer to certain specific matters for the purpose of emphasizing some aspects of the general financial problems of municipalities.

Assessments.—Table 1 provides a break-down of the municipal assessment figures for 1936. It shows conclusively that the main source of municipal revenue is the levy on land. Upon referring to Appendix A, included at the end of this memorandum, it will be seen that municipal assessments increased until 1922, when the population was 573,289 and the assessments were \$681,203,084, and that they have steadily declined since. In 1936 the population was 648,048 and the assessments had fallen to \$477,221,364. During the same period the equalized assessment made by the Tax Commission, which includes the value of farm buildings, had fallen from \$764,784,000 to \$458,390,000.

Municipal Tax Levies.—For a population of 283,059 in 1905 the total municipal tax levy was \$3,441,961.78, which amounted to a per capita levy of \$12.16; while in 1922, the year in which municipal assessments were the highest, the population was 573,289 and the municipal tax levy was \$22,163,682.00, a per capita levy of \$38.66. In 1936 levies were lower, even after the assumption by certain municipalities of the drainage debt, and

TABLE 1.—BREAKDOWN OF MUNICIPAL ASSESSMENT FIGURES IN MANITOBA FOR THE YEAR 1936

Type of Municipality	Gross Assessment Value	Exemptions, including Lands Acquired through Tax Sale	Real Estate	Personal Property	Business Tax	Total Assessment	Assessed Value Tax Certificates Held by Municipality	Net Live Assessment
Rurals	\$271,271,984	\$ 70,579,298	\$197,803,343	\$2,796,615	\$ 92,728	\$200,692,686	\$17,840,557	\$182,852,129
Suburbans . .	23,237,480	8,024,815	14,568,390	644,275	.....	15,212,665	1,168,085	14,044,580
Villages	6,534,843	1,312,170	4,531,348	587,735	103,590	5,222,673	163,400	5,543,418
Towns	39,724,198	15,168,492	22,622,230	1,270,760	662,716	24,555,706	1,845,585	22,710,121
Total	340,768,505	95,084,775	239,525,311	5,299,385	859,034	245,683,730	21,017,627	225,150,248
Cities ^a	296,072,385	64,534,751	221,877,647	29,690	9,630,297	231,537,634	8,439,149	223,098,485
Total	\$636,840,890	\$159,619,526	\$461,402,958	\$5,329,075	\$10,489,331	\$477,221,364	\$29,456,776	\$448,248,833

^a Figures for cities are subject to revision as department does not audit cities.

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stood at \$18,054,688.30 for a municipal population, according to the Dominion census, of 648,048 — a per capita levy of \$27.86. While municipal assessments were 2.87 per cent lower in 1936 than they were in 1913, municipal tax levies in the same period had nearly doubled.

Municipal Tax Arrears.—Statistics for tax arrears are only available from the year 1922. It should be pointed out that the valuation of tax titles includes all taxes imposed until title is obtained. In 1922 there was \$17,469,509.02 of tax arrears, tax sale certificates, titles, and agreements for sale, an amount substantially less than the total levy for that year, which was \$22,163,682.00. In 1936 the total tax arrears, certificates, titles, and agreements amounted to \$35,321,132.86, which included approximately \$1,000,000 of drainage tax arrears transferred to the municipalities in drainage districts, making the total of arrears almost double the 1936 municipal levy, which was \$18,054,688.30.

Capital Debts.—The figures given in Appendix A, included in this brief, for the years before 1933 show only the municipal and school debenture debt. Besides these debenture debts there are certain deferred capital debts for which municipalities are liable and charges against land. For the purpose of showing the total capital debt chargeable against land, the book value of the sinking funds, and the distribution of the debt among the various groups of municipalities, Table 2 gives data for the years 1922 and 1936 on unmatured municipal debentures and deferred liabilities, unmatured drainage and judicial district debentures, and public school debentures unmatured and unpaid.

TABLE 2.—UNMATURED MUNICIPAL DEBENTURES AND DEFERRED LIABILITIES, UNMATURED DRAINAGE AND JUDICIAL DISTRICT DEBENTURES, AND PUBLIC SCHOOL DEBENTURES UNMATURED AND UNPAID, 1922 AND 1936

Municipality Class	1922 ^a	1936
CAPITAL DEBT		
Rurals, Villages, Towns, Suburbans.....	\$14,631,855.00	\$ 17,743,329.41
Drainage Districts ^b	4,666,135.66	.....^c
Cities.....	59,595,926.15	79,580,893.99
Judicial Districts ^b	2,224,179.99	1,795,880.08
Public School Districts ^b	13,499,556.47	14,890,077.37
Total.....	\$94,617,653.27	\$114,010,180.85
SINKING FUNDS (BOOK VALUE)		
Rurals, Villages, Towns, Suburbans.....	\$ 811,922.12	\$ 842,910.25
Drainage Districts ^b	1,424,987.53	.....
Cities.....	17,636,956.76	37,526,531.20
Judicial Districts ^b	510,736.96	442,986.67
Public School Districts ^b	1,170,502.89	4,973,026.42
Total.....	\$21,555,106.26	\$ 43,785,454.54
Net Debt.....	\$73,062,547.01	\$ 70,224,726.31

^a 1922 figures do not include deferred liabilities.

^b 1922 figures for drainage and judicial districts are as at August 31 next; in 1936 as at April 30 next. School figures as at July 10.

^c In 1936 the rural municipalities assumed adjusted drainage debt.

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Figures for 1936 show the elimination of the drainage debt as a separate charge against land, and the increase in the debenture debt of rural municipalities due to their assumption of the adjusted drainage debt. The deferred liabilities consist mainly of the municipal share of the cost of highways financed by the Province. The annual levies to retire this deferred debt and to pay the interest and sinking funds on judicial district debt are made by the Municipal Commissioner. Levies for the retirement of public school debt are included in the special school levies of school districts in rural municipalities and in the school district requirements of urban school districts.

Municipal Defaults.—In addition to unmatured capital obligations, there was \$3,638,234.99 owing and unpaid as at December 31, 1936, being capital debt and deferred liabilities which had matured and were in default as follows:

DEBENTURES ^a	
Rurals	\$ 467,391.56
Villages	13,066.61
Towns	256,556.22
Suburbans	1,890,404.71
St. Boniface ^b	815,937.48

DEFERRED LIABILITIES	
Rurals	192,343.54
Villages	338.86
Towns	2,196.01

Total \$3,638,234.99

^a School district defaults are included in amount of outstanding debenture debt.

^b Brandon defaulted in 1937.

Summary.—It is admitted that the income of taxpayers has been materially reduced during recent years, but it is evident that even previous to 1930 decreasing municipal assessments, increasing tax arrears, increase of lands acquired by municipalities through tax delinquency, municipal defaults, and the reductions made in controllable expenditures amply justify the statement that necessary municipal responsibilities have placed an undue burden on land, the main source of municipal revenues.

PROVINCIAL AID TO LOCAL GOVERNMENT UNITS

The government of the province of Manitoba has realized the increasing financial difficulties of local government units, faced as they were with falling revenues and increased demands for services. To the extent of its ability, bearing in mind its own decreasing revenues and its added responsibilities, the province has materially lightened the financial burdens of municipalities or relieved charges on land, the main source of revenue for the municipalities.

Reduction of Municipal Commissioner's Levies.—Appendix B attached to this brief shows the reductions made by the province in the Municipal Commissioner's Levy. This levy on land has varied from time to time, because as demands for services of a special nature arose, the Municipal Commissioner was required by statute to make levies to provide the funds for these services.

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Generally these levies have been made against all municipalities, but the Manitoba Sanatorium Levy does not apply to cities and the Good Roads Levy applies only to certain municipalities. A summary of the purposes of various levies follows:

The Provincial Board of Health Levy, 1893 to 1925, and the Public Health Act Levy, 1929 and 1930, were to provide funds for public health purposes.

The Manitoba Patriotic Levy, 1916 to 1919, was to provide funds for patriotic and other philanthropic purposes.

The Soldiers' Taxation Relief Levy, 1924 to 1930 and 1933 *et seq.*, was to reimburse municipalities for the exemption or partial exemption from municipal taxation of the homes of soldiers and soldiers' widows or dependents. The benefits provided by the act were restricted in 1933.

The Manitoba Sanatorium Levy, 1914 *et seq.*, is a contribution by municipalities other than cities to the support of a sanatorium for tuberculosis in lieu of liability for indigent patients resident in the municipality. The cities preferred to pay for their indigent patients at a *per diem* rate.

The Mothers' Allowance or Child Welfare Levy, 1916 to 1930, was to recoup, or partially recoup, the province for expenditures in maintaining, or partially maintaining, bereaved and dependent children.

The Old-Age Pensions Levy, 1928 *et seq.*, is to provide the funds for the contribution of the municipalities for old-age pensions.

The Cancer Research Levy, 1936 *et seq.*, is to provide funds for a grant from the municipalities to the Cancer Research and Relief Institute.

The Supplementary Revenue Levy, 1918 to 1929, was to raise funds to supplement the revenues of the province.

The Good Roads Levy, 1928 *et seq.*, which is made only against certain municipalities, is for the purpose of repaying moneys advanced to these municipalities by the province to defray the municipality's share of the cost of highways constructed under the Good Roads Act.

The Municipal Commissioner's Levy has been reduced at various times by eliminating therefrom the important levies shown in Table 3.

TABLE 3.—ELIMINATIONS FROM MUNICIPAL COMMISSIONER'S LEVIES

Levy	Year Imposed	Year Elimi- nated	Total Amount Imposed	Period of Years Imposed	Greatest Annual Levy	
					Amount	Year
Provincial Board of Health.....	1893	1926	\$ 952,623.89	33	\$ 123,207.00	1921
Patriotic Fund.....	1916	1920	3,895,962.27	4	1,447,544.00	1917
Mothers' Allowance and Child Welfare...	1916	1931	2,780,845.94	15	375,000.00	1929
Supplementary Revenue.....	1918	1930	13,087,033.82	12	1,529,548.00	1922
Public Health Act.....	1929	1931	330,440.00	2	190,440.00	1929
Total.....			\$21,046,905.92			

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In addition to these eliminations of entire levies the Old-Age Pensions Levy was reduced in 1930, when the Dominion government increased its contribution to old-age pensions. The Soldiers' Taxation Relief Levy was eliminated in 1931 and 1932, and when re-imposed in 1933 it was substantially reduced, falling from a levy of \$150,000.00 in 1930 to a levy of \$17,500.00 in 1936.

The gradual increase and subsequent reduction of the Municipal Commissioner's Levy over a period of years are shown in the following tabulation:

<i>Year</i>	<i>Amount</i>	<i>Year</i>	<i>Amount</i>
1913.....	\$ 86,550.58	1925.....	\$1,724,757.25
1915.....	214,783.54	1927.....	1,306,256.25
1917.....	1,754,988.57	1929.....	2,115,065.70
1919.....	1,737,313.75	1931.....	513,122.99
1921.....	2,211,734.33	1933.....	589,585.87
1923.....	1,990,129.00	1935.....	618,977.70

It should be pointed out that to the extent the services, for which these eliminated levies were imposed, have been continued or increased, the province has had to find the necessary revenue by increasing taxation or reducing controllable expenditures.

Appendix C attached to this report shows particulars of Municipal Commissioner's levies against municipalities and unorganized territory from 1889 to 1937.

Repeal of Unoccupied Land Tax.—The Unoccupied Land Tax was first imposed in 1918 for the purpose of supplementing the revenues of the province and was repealed as a source of provincial revenue in 1931. It was further provided in 1936 that upon a municipality paying over all moneys collected prior to April 20, 1931, the Municipal Commissioner might release and discharge the municipality from liability to account for or pay over moneys thereafter collected from said levies. Between 1918 and 1932 the province received the following amounts from the Unoccupied Land Tax:

<i>Year</i>	<i>Amount</i>	<i>Year</i>	<i>Amount</i>
1918 ^a	\$137,500.00	1926.....	\$ 45,126.23
1919.....	85,330.28	1927.....	32,236.42
1920.....	114,635.75	1928.....	29,517.16
1921.....	91,898.97	1929.....	18,866.28
1922 ^b	206,779.95	1930.....	14,671.35
1923.....	211,114.24	1931.....	10,826.45
1924.....	140,375.14	1932.....	2,706.60
1925 ^c	43,415.12		

Total.....\$1,184,999.94

^a Year ending November 30.

^b Year ending August 31.

^c Year ending April 30.

Assumption of Debt Incurred for Soldiers' Taxation Relief.—In 1931 the province assumed the indebtedness represented by the debentures and securities of the province outstanding in respect of sums raised by it for the purpose of the Soldiers' Taxation Relief Act, and which had not been levied upon the municipalities, to the amount of \$1,193,763.38.

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Assumption of Debt of Land Drainage Districts.—In 1936 the province assumed a capital debt of \$1,782,897.19, as at the 30th of April, 1935, which was a first charge against land situate in land drainage districts. At the same time the province transferred to the rural municipalities within drainage districts approximately \$1,000,000 of drainage tax arrears which previously were assets of the province.

Assumption of Relief Debt of Drought Area.—In February, 1937, the province wrote down the debt of thirteen municipalities in the drought area in the principal amount of \$1,142,415.00. This debt was incurred by these municipalities for seed grain, fodder, and the municipal share of relief works and unemployment relief.

Annual Grants for Schools and Relief.—In 1937 the province reduced the general statutory school levy on land by 10 per cent and increased grants to schools by a like amount. In the year 1935–1936 the provincial grants to school districts totalled \$988,434.30, the provincial aid to municipalities and unorganized territory for relief for the year ending March 31, 1937, totalled \$1,763,458.61.

Provincial Financing of Municipalities and School Districts.—At December 31, 1936, for seed grain, relief, housing loans, arrears of Municipal Commissioner's levies, defaulted guaranteed municipal debentures paid by the province, and for other municipal securities in default and held by the province, the municipalities owed the province the sum of \$3,226,759.59. At the same date there were unmatured liabilities and contingent guarantees outstanding amounting to \$10,834,110.49.

FINANCIAL PROBLEMS OF SPECIFIC GROUPS OF LOCAL GOVERNMENT UNITS

Having referred to matters that generally affect the financial problems of all municipalities and to the extent of the financial aid given by the province, it is now intended to make brief reference to problems that particularly affect specific groups of local governing units.

The province understands that the city of Winnipeg and some of these groups may be submitting separate briefs to the Commission, outlining in some detail their specific problems. It is considered advisable, however, for the province to submit to the Commission general information as to the specific problems of rural municipalities, including sub-marginal and drought areas, villages and towns, suburbans, cities, and school districts. It is evident from the statistics the province is submitting to the Commission that these groups have all been affected by decreasing municipal assessments, increasing tax arrears, and the increase in lands acquired through tax delinquency; in addition, each group has particular difficulties which have materially increased its financial problems.

RURAL MUNICIPALITIES

In 1936 the 112 rural municipalities in Manitoba had unmatured capital liabilities of \$6,667,870.50, with total sinking funds having a book value of

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\$46,450.18 and a total net immediate cash deficit, that is total current liabilities, including matured capital liabilities and sinking fund deficits less cash on hand, of \$4,818,934.00. Total assessments were reduced from \$239,-487,250.00 in 1930 to \$200,692,686.00 in 1936. Their net live assessment in 1936 was only \$182,759,401.00. The 1936 tax levy amounted to \$5,091,418.01. In spite of the reduction in uncontrollable school levies, the percentage of uncontrollable expense to total expense in 1936 was 55.71 per cent. Tax arrears of rural municipalities amounted to \$10,827,767.26. The operating loss in 1936 of 38 rural municipalities, amounting to \$399,108.28, was distributed as follows:

Drought Area Municipalities (15).....	\$254,614.60
Sub-Marginal Municipalities (13).....	97,112.19
Others (10).....	47,381.49
Total (38).....	\$399,108.28

Between 1930 and 1936 tax levies were reduced by \$2,174,932.73 and tax arrears had increased by \$2,290,014.02, which included approximately \$1,000,-000 of arrears of drainage levies.

While rural municipalities have made reductions in expenditures, these reductions have been made at the expense of essential services. A comparison of the distribution of the total expense of rural municipalities for the years 1931 and 1936 is as follows:

<i>Purpose</i>	<i>1931</i>	<i>1936</i>
Education.....	\$2,716,264.34	\$1,797,445.49
Public Works.....	1,035,635.87	1,059,645.42
Social Services.....	255,796.74	560,212.78
All other purposes.....	1,755,536.18	1,864,948.59
Total.....	\$5,763,233.13	\$5,282,252.28

A decreasing base of taxation, the accumulation of tax arrears, the substantial reduction in expenditures for education, and the increasing cost of social services, are the outstanding features of rural municipal finance. In some of the municipalities in the sub-marginal areas some adjustments of capital debt may be necessary, and the future of the drought area will depend principally on moisture conditions. Rural municipalities apart from the sub-marginal and drought areas have been able to maintain their position to some degree only by the drastic curtailment of services that must ultimately be resumed and that will impose an additional burden on future revenues, which, it is evident from past experience, will prove unequal to the need. As regards sub-marginal and drought areas, their share of the cost of education and social services must be brought more in line with their ability to pay.

VARIATIONS OF TAX REVENUE PRODUCING CAPACITY IN THE RURAL MUNICIPALITIES

In order to portray objectively the variations in the ability of rural municipalities to provide services, Professor H. C. Grant, from enquiries made

of municipalities, from the statistical information furnished by the Municipal Commissioner's office for 1935, and from the 1936 census, has compiled the following data. In these comparisons Professor Grant has not included the rural municipalities adjacent to the city of Winnipeg, because these municipalities include large areas of land which are suburban properties and are not typical examples of rural municipalities.

Assessment per Farm Acre.—The total assessment divided by the number of farm acres in the municipality yields the following results. The average assessment per farm acre for rural municipalities of Manitoba is \$13.47. The range is from \$27.94 to \$4.19. There are twenty-seven municipalities in which the assessment per farm acre is less than \$10.00 and nine municipalities in which the assessment per farm acre is over \$20.00.

Assessment per Improved Acre.—The assessment per improved acre is more indicative of the ability to pay because it relates the intensity of cultivation to assessments. The average assessment per improved acre is \$25.91 and the range is from \$57.90 to \$12.66. There are nine municipalities which have an assessment per improved acre of under \$15.00 and sixteen with an assessment over \$30.00.

Total Tax Imposed per Farm Acre.—The average of total taxes imposed per farm acre is 32 cents. The range is from 77 cents to 18 cents. There are seven municipalities which impose taxes of under 20 cents per farm acre and twenty which impose taxes of over 40 cents per farm acre.

Total Tax Imposed per Improved Acre.—The average total tax imposed per improved acre is 73 cents. Taxes range from \$3.93 down to 26 cents per acre. Forty-eight municipalities impose less than 50 cents and sixteen over \$1.00 per improved acre.

Total Municipal Taxes Collected per Farm Acre.—The average under this heading is 27 cents per acre, with a range from 75 cents to 8 cents. Twelve municipalities collect less than 15 cents per farm acre and nine collect over 45 cents per farm acre.

Total Municipal Taxes Collected per Improved Acre.—Taxes collected per improved acre average 57 cents. The range is from \$2.59 to 11 cents. There are twenty-one municipalities which have a tax income of less than 30 cents per improved acre and twenty-eight which collect over 60 cents per improved acre.

Tax Arrears per Farm Acre.—Unpaid taxes average 45 cents per acre for the rural municipalities of Manitoba. The highest tax delinquency per farm acre is \$1.32 and the lowest is 16 cents. There are fourteen municipalities in which tax arrears are under 25 cents and thirty-one municipalities in which they are over 50 cents per farm acre.

Tax Arrears per Improved Acre.—The average for the province is \$1.05 and the range from \$7.60 to 24 cents. In twenty-eight municipalities tax arrears per improved acre are under 50 cents, while in thirty-one municipalities they are over \$1.00.

FINANCIAL PROBLEMS OF MUNICIPALITIES AND SCHOOL DISTRICTS

VILLAGES AND TOWNS

In 1936 the 53 villages and towns in Manitoba, including the municipal district of Flin Flon, had unmatured capital liabilities of \$3,050,027.63, with total sinking funds having a book value of \$462,885.16 and a total net immediate cash deficit, including matured capital liabilities and sinking fund deficits, of \$469,452.00. Total assessments were reduced from \$31,123,658.00 in 1930 to \$29,778,379.00 in 1936. Their net live assessment in 1936 was \$27,003,088.00. The 1936 tax levy amounted to \$1,234,557.71. In spite of the reduction in uncontrollable school levies the percentage of uncontrollable expense to total expense was 51.09 per cent. Between 1930 and 1936 tax levies were reduced by \$63,863.58 and tax arrears increased by \$627,669.10. The operating loss of 30 towns and villages in 1936 was \$59,401.54. A comparison of the distribution of the total expense for towns and villages for the years 1931 and 1936 is as follows:

<i>Purpose</i>	<i>1931</i>	<i>1936</i>
Education.....	\$ 519,033.66	\$ 443,939.34
Public Works.....	226,455.28	160,646.54
Social Services.....	84,376.50	153,500.93
All other purposes.....	630,075.63	592,522.52
Total.....	\$1,459,941.07	\$1,350,609.33

A decreasing tax base, the accumulation of tax arrears, the substantial reduction in expenditures for education, the failure to adequately maintain public works, and the increasing cost of social services are the more important features of the finances of towns and villages.

TOWN OF TRANSCONA

The town of Transcona in 1936 had unmatured capital liabilities of \$1,069,964.77, with a sinking fund of \$394.67 and an immediate cash deficit of \$164,350.21. Its total assessment in 1930 was \$2,049,290.00 and in 1936 \$2,060,890.00. Its net live assessment in 1936 was \$1,910,890.00. The 1936 tax levy amounted to \$129,668.15. Between 1930 and 1936 tax levies were reduced by \$7,477.51 and tax arrears increased by \$68,301.58. It is interesting to note that in 1936 the total unmatured capital liabilities and immediate cash deficit amounted to \$1,234,314.98 and the total tax arrears to \$1,245,001.64, while the total net live assessment was only \$1,910,890.00. Transcona has defaulted in the payment of capital debt. The observations hereinafter made with reference to suburban municipalities apply with equal force to the town of Transcona.

SUBURBANS

In 1936 the five suburban municipalities had unmatured capital liabilities of \$8,025,431.28 with total sinking funds having a book value of \$333,574.91 and a total net immediate cash deficit, including matured debentures and sinking fund deficits, of \$2,382,145.87. Total assessments were reduced from \$18,391,486.00 in 1930 to \$15,212,665.00 in 1936. The net live assessment

FINANCIAL PROBLEMS OF MUNICIPALITIES AND SCHOOL DISTRICTS

in 1936 was \$14,044,580.00. Tax levies for 1936 totalled \$1,170,086.92. Applied to the live assessment this levy would give a composite rate of 83.31 mills. The percentage of uncontrollable expense to total expense was 64.39 per cent. Operating loss in 1936 was \$119,147.12. Between 1930 and 1936 tax levies had been reduced by \$91,124.39 and tax arrears had been increased by \$948,539.07. A comparison of the distribution of the total expense for the years 1931 and 1936 is as follows:

<i>Purpose</i>	<i>1931</i>	<i>1936</i>
Education.....	\$ 385,283.99	\$ 365,946.48
Public Works.....	81,052.27	74,687.11
Social Services.....	77,040.41	267,206.76
All other purposes.....	996,106.78	883,217.37
Total.....	\$1,539,483.45	\$1,591,057.72

All the suburbans but one are under financial supervision and all have defaulted in the payment of capital debt.

The outstanding features of the financial situation of the suburban municipalities are: (1) the substantial increase in the cost of relief and social services; (2) the heavy capital debt as related to assessment; (3) the high tax levy; (4) the percentage of expenditure which is uncontrollable; (5) the decreasing tax base; (6) the accumulation of tax arrears.

CITIES

It has already been explained that the financial statements of the four cities in Manitoba are compiled by their respective auditors and consequently are not uniform in character. Therefore, there is not available to the government the same comparative detailed statistics as for the other municipalities of the province whose accounts are audited by provincial municipal auditors. Any statistics or statements submitted herein on behalf of the cities generally or on behalf of the city of Winnipeg are based on information furnished at various times to the Department of Municipal Affairs and are subject to correction if inaccurate in any particular.

In 1936 the four cities of Manitoba had unmatured capital liabilities amounting to \$79,580,893.99, with total sinking funds having a book value of \$37,526,531.20, and a total net immediate cash deficit of \$11,863,862.93. Their total assessments in 1930 were \$274,691,655.00 as against \$231,537,634.00 in 1936. Their total net live assessment in 1936 was \$223,098,485.00. Revised figures show that the total of their tax arrears in 1930 was \$12,458,558.72 as against \$17,640,702.81 in 1936. Their total tax levies in 1930 were \$12,341,577.31 and in 1936, \$10,558,625.66.

Like the other municipalities in Manitoba, the main source of revenue for the cities is the tax on land; business tax and licenses make up the balance. During recent years the tax base of the cities has been materially decreased because of lands reverting to the cities through tax delinquency.

FINANCIAL PROBLEMS OF MUNICIPALITIES AND SCHOOL DISTRICTS

Undoubtedly the greatest single problem for the cities is that of unemployment relief. In 1936 the expenditure of the cities of Manitoba for this purpose was approximately \$1,758,000. Except for some relief works, Brandon, Portage, and St. Boniface have been attempting to finance unemployment relief as a current expenditure. St. Boniface and Brandon have been compelled to default, and are under financial supervision. Owing to their financial difficulties, the cities have been unable to properly maintain their public works and serious impairment has resulted.

CITY OF WINNIPEG

The 1936 census gave the city of Winnipeg a population of 215,814 as against a total municipal population for the rest of the province of 432,234. In other words, one-third of the people living in organized municipalities in Manitoba live in the city of Winnipeg. It is considered advisable, therefore, to make some brief special references to the financial problems of the city of Winnipeg.

The funded and to be funded debt of the city of Winnipeg as at December 31, 1936, was \$71,651,838.28, against which there was a total sinking fund having a book value of \$32,817,949.77. Its immediate cash deficit amounted to \$6,977,357.00. The total assessment for 1930 was \$245,528,303.00 and for 1936, \$207,326,865.50. The total tax imposed in 1930 was \$10,771,456.31 and in 1936, \$9,235,524.08. The total tax arrears in 1930 amounted to \$8,242,818.89 and in 1936 to \$12,047,393.47.

Like other municipalities in Manitoba, the main source of revenue of the city of Winnipeg is the tax on real estate. This base of taxation has been materially reduced during recent years because of numerous successful appeals for lowered assessments and because of property acquired by the city through tax sale proceedings. In 1936 it was estimated that over 34 per cent of the area of the city was owned by the city because of tax delinquency. It may be pointed out that it is not altogether unimproved property that has come into the hands of the city, as it has acquired some eighty commercial buildings and over one hundred dwellings. In addition to sale for taxes, business blocks and large private dwellings have been torn down to escape the annual charge for taxation. There seems no doubt that the burden of real estate taxation has hampered the normal development of the city.

Coming now to the burden of unemployment relief, in 1936 Winnipeg's share of such relief was \$1,604,040.21. The city had been unable to provide for relief expenditures in its current budget. In 1936 the funded and borrowed relief debt of the city was \$7,809,170.72. In the 1937 budget there is an item for charges on the funded relief debt of \$401,082.64. The funding of relief expenditures cannot be justified, but it became necessary because there was no other alternative. Any substantial increase in taxation will only accelerate the operation of the law of diminishing returns. The power of the city to borrow for current purposes has been exhausted, and its bankers have insisted that

the current overdraft of the city be substantially reduced. In addition, the city has been unable to adequately maintain its public works, and substantial losses are occurring annually through the deterioration of these assets.

If the city of Winnipeg is to remain financially solvent its expenditures must be reduced through the elimination of the burden of unemployment relief and some reduction in the cost of social services.

SCHOOL DISTRICTS

Some incidental reference has already been made to the financial problems of school districts in considering finances of municipalities. At June 30, 1936, the debenture debt of school districts, including the sums due and unpaid, amounted to \$14,890,077.37 with sinking funds having a book value of \$4,973,026.42. The immediate cash deficit of all school districts was \$3,377,005.95. Statistics for municipalities other than cities show over \$1,000,000 less in expenses for education in 1936 than in 1931. Figures furnished by the Department of Education for all school districts show that receipts from local taxation in 1936 were over \$2,000,000 less than they were in 1931.

School districts, like municipalities, show a revenue peak in 1922-23. In 1923 there were 2,106 districts, 3,936 teachers, a school population of 142,369, and receipts from local taxation of \$8,173,986.21, while in 1936 there were 2,270 districts, 4,426 teachers, a school population of 142,482, and receipts from local taxation of \$5,635,473.27

For the year ending June 30, 1937, it is estimated there were 868 school teachers in Manitoba in receipt of a salary under \$500 per annum. These represent 20 per cent of the total teaching force of the province and 42 per cent of the rural teaching staff. School inspectors report rapid deterioration in school buildings owing to inability to finance repairs. They also report deficient equipment in a large number of schools. At the present time, mainly for financial reasons, 237 school districts are being administered by official trustees, and these districts have been operated on the average of only 160 days yearly.

In dealing with the municipal financial situation, it was submitted that land, the main source of municipal taxation, could not bear any further burden of taxation. As municipal taxation for schools is the main source of school district revenue, it is evident that an increase of the school tax on land is not a solution.

If reasonable educational services for the children in the marginal and sub-marginal areas of the province are to be provided, if adequate salaries are to be paid teachers in rural Manitoba, if a reasonable standard of school buildings and equipment is to be maintained, there must be substantial increase in the grants-in-aid to education. In addition, if the educational curriculum in rural Manitoba is to be extended and adapted to meet the needs of the rural children, and provide a programme of practical work comparable to that offered to the children in the cities, additional revenues for increased teaching staff, equipment, and possibly transportation are urgently needed.

FINANCIAL PROBLEMS OF MUNICIPALITIES AND SCHOOL DISTRICTS

GENERAL SUMMARY

The purpose of this brief submitted to the Commission by the Government on behalf of the municipalities and school districts in Manitoba is:

1. To outline the administrative system of local government in the province and the financial relations between the province, municipalities, and school districts.
2. On the basis of the financial statistics included in or submitted with this brief, to draw the attention of the Commission to certain financial problems that generally affect all municipalities and school districts, and indicate the extent of the financial aid given by the province to local governments.
3. To briefly analyse the particular financial problems of rural municipalities, towns and villages, suburbans, cities, and school districts.

APPENDIX A—POPULATION, ASSESSMENTS, TAX LEVIES, TAX ARREARS, AND MUNICIPAL AND SCHOOL DISTRICT DEBENTURE DEBTS OF MANITOBA MUNICIPALITIES

YEAR	POPULATION	ASSESSMENTS		MUNICIPAL TAXES IMPOSED			MUNICIPAL TAX ARREARS	DEBENTURE DEBT	
		MUNICIPAL ASSESSMENT	EQUALIZED ASSESSMENT	ALL MUNICIPAL PURPOSES OTHER THAN MUNICIPAL COMMISSIONER LEVIES	MUNICIPAL COMMISSIONER LEVIES	TOTAL MUNICIPAL TAXES IMPOSED		MUNICIPAL DEBENTURE DEBT	SCHOOL DEBENTURE DEBT
1905	283,059	\$153,241,706.00	.....	\$ 3,398,741.09	\$ 43,220.69	\$ 3,441,961.78	.....	\$10,195,550.70	\$ 1,658,599.00
1906	315,732	181,973,875.00	.....	3,755,535.66	50,239.01	3,805,774.67	.....	12,263,842.74	1,748,675.00
1907	336,067	219,873,550.00	.....	4,525,030.96	52,378.89	4,577,409.85	.....	17,033,808.00	2,031,107.80
1908	349,808	346,505,517.00	.....	4,804,222.97	61,443.42	4,865,666.39	.....	18,862,010.00	2,478,637.88
1909	378,202	248,399,165.00	.....	5,138,651.69	58,142.43	5,196,794.13	.....	22,927,550.00	2,732,318.08
1910	391,975	299,140,739.00	.....	5,976,902.10	65,002.99	6,041,905.09	.....	24,307,441.00	3,276,639.83
1911	424,863	326,322,516.00	.....	8,051,236.83	87,662.23	8,138,899.06	.....	21,121,003.00	4,602,227.92
1912	450,161	408,203,509.00	.....	10,078,707.59	80,377.76	10,159,085.35	.....	37,298,589.00	.....
1913	499,014	491,323,733.00	.....	9,132,457.30	86,550.58	9,219,007.88	.....	46,557,991.00	5,253,908.59
1914	526,587	547,306,069.00	.....	11,168,996.16	217,584.27	11,386,580.43	.....	55,454,437.00	6,934,143.31
1915	531,096	547,698,221.00	.....	11,421,508.29	214,783.54	11,636,291.83	.....	56,964,702.68	8,536,981.26
1916	521,123	556,490,859.41	.....	11,128,841.42	1,364,598.03	12,493,439.45	.....	57,420,912.16	8,700,439.19
1917	500,748	504,761,748.81	.....	11,259,076.91	1,754,988.57	13,014,065.48	.....	57,625,311.17	9,002,782.86
1918	507,904	487,585,534.00	.....	13,335,616.40	2,004,901.87	15,400,518.27	.....	56,108,633.95	8,982,257.73
1919	507,442	487,857,405.00	.....	14,116,127.78	1,737,313.75	15,853,441.53	.....	55,562,788.00	8,316,796.44
1920	541,466	484,802,829.00	\$680,866,607.00	16,559,817.14	1,825,269.02	18,385,086.16	.....	57,820,588.00	8,801,701.36
1921	552,701	674,574,091.00	764,094,000.00	20,074,874.53	2,211,734.33	22,286,608.86	.....	65,463,239.00	10,742,715.83
1922	573,259	631,203,084.00	764,784,000.00	19,977,487.89	2,186,194.11	22,163,682.00	\$17,469,509.02	74,227,781.15	13,499,556.47
1923	564,518	637,919,717.00	700,732,000.00	19,840,185.23	1,990,129.00	21,830,314.23	19,753,515.71	76,136,398.95	13,711,587.04
1924	557,625	624,404,428.00	700,177,000.00	18,690,603.44	1,900,129.00	20,590,732.44	20,659,597.83	79,485,463.60	13,062,786.73
1925	557,892	594,994,624.00	667,107,000.00	18,668,157.96	1,724,737.25	20,392,915.21	21,818,525.93	81,028,576.29	14,843,893.35
1926	565,480	580,350,270.00	667,107,000.00	18,707,151.29	1,749,757.25	20,456,908.54	22,777,004.84	83,182,673.64	15,096,559.99
1927	561,386	567,504,166.00	647,735,000.00	18,918,444.27	1,306,256.25	20,224,700.52	23,378,974.04	85,951,876.74	15,080,438.50
1928	564,716	559,315,719.00	647,087,000.00	19,684,176.25	1,016,301.48	20,700,477.73	22,434,393.10	86,201,906.67	15,337,886.59
1929	569,364	561,589,490.00	631,498,000.00	20,173,433.53	2,115,065.70	22,288,500.23	25,886,092.34	89,215,796.72	15,348,244.91
1930	574,432	563,694,049.00	631,234,000.00	20,933,937.36	1,183,624.17	22,117,561.53	25,919,762.50	89,205,163.81	15,200,833.09
1931	.....	557,103,129.00	591,640,000.00	20,747,200.39	513,122.99	21,260,323.38	28,963,377.73	91,615,195.29	15,145,633.95
1932	.....	532,296,364.00	590,662,000.00	20,634,153.67	504,146.83	20,598,300.50	32,400,920.77	92,471,255.31	15,978,486.76
1933	.....	517,628,197.00	552,811,000.00	18,324,910.63	589,585.57	18,914,496.50	33,025,912.52	96,018,344.02	15,780,330.92
1934	.....	509,753,890.00	553,167,000.00	17,891,571.18	637,484.22	18,519,055.40	33,536,571.33	96,018,344.02	15,836,848.56
1935	.....	477,829,469.00	458,390,000.00	17,393,157.22	618,977.70	18,012,134.92	34,788,825.26	95,912,993.21	15,651,024.81
1936	648,048	477,221,364.00	458,390,000.00	17,390,740.31	663,947.99	18,054,688.30	35,321,132.86	97,324,223.40 ^c	14,890,077.37

^a Includes deferred liabilities.

^b Drainage arrears taken over by municipality.

^c Drainage district capital debt assumed by municipality.

APPENDIX B—DISTRIBUTION OF MUNICIPAL COMMISSIONER LEVIES AND ELIMINATION OF CERTAIN LEVIES

Year	Total Municipal Commissioner Levies	Judicial and County	Provincial Board of Health	Sanatorium ^a	Patriotic	Supplementary Revenue	Mothers' Allowance and Child Welfare	Soldiers' Taxation Relief	Old-Age Pension Levy	Cancer Research	Miscellaneous	Good Roads ^b
1905	\$ 43,220.69	\$ 21,511.63	\$ 11,145.06	.....	.....	.....	.....	.....	.....	.....	\$10,564.00	.....
1906	50,239.01	26,848.13	11,365.55	.....	.....	.....	.....	.....	.....	.....	12,025.33	.....
1907	52,378.89	31,090.40	12,558.77	.....	.....	.....	.....	.....	.....	.....	8,729.72	.....
1908	61,443.42	32,524.88	11,459.46	.....	.....	.....	.....	.....	.....	.....	17,459.08	.....
1909	58,142.43	33,136.08	10,339.58	.....	.....	.....	.....	.....	.....	.....	14,666.77	.....
1910	65,002.99	43,488.05	10,723.52	.....	.....	.....	.....	.....	.....	.....	10,791.42	.....
1911	87,662.23	64,937.78	11,503.19	.....	.....	.....	.....	.....	.....	.....	11,221.26	.....
1912	80,377.76	61,087.50	13,020.26	.....	.....	.....	.....	.....	.....	.....	6,270.00	.....
1913	86,550.58	74,018.64	12,219.94	.....	.....	.....	.....	.....	.....	.....	312.00	.....
1914	217,584.27	173,040.10	15,676.11	\$ 28,559.06	.....	.....	.....	.....	.....	.....	309.00	.....
1915	214,783.54	167,753.16	15,870.73	24,409.65	.....	.....	.....	.....	.....	.....	6,750.00	.....
1916	1,364,598.03	223,118.89	28,812.20	27,004.14	\$1,085,377.80	.....	.....	.....	.....	.....	285.00	.....
1917	1,754,988.57	224,060.64	49,600.05	27,167.38	1,447,544.00	.....	.....	.....	.....	.....	6,616.50	.....
1918	2,064,901.87	260,130.73	47,972.72	52,641.69	1,022,344.45	\$ 681,545.28	.....	.....	.....	.....	267.00	.....
1919	1,737,313.75	277,017.51	47,722.15	52,415.51	340,696.02	1,019,204.56	.....	.....	.....	.....	258.00	.....
1920	1,825,269.02	331,623.86	47,789.66	83,873.30	.....	1,361,733.20	.....	.....	.....	.....	249.00	.....
1921	2,211,734.33	462,988.33	123,059.00	97,259.00	.....	1,528,188.00	.....	.....	.....	.....	240.00	.....
1922	2,186,194.11	444,116.98	123,207.00	87,658.13	.....	1,529,548.00	.....	.....	.....	.....	1,664.00	.....
1923	1,990,129.00	167,100.00	115,331.00	79,677.00	.....	1,401,464.00	\$226,335.00	.....	.....	.....	222.00	.....
1924	1,900,129.00	38,388.67	81,230.75	77,420.34	.....	1,391,347.53	220,359.70	.....	.....	.....	359.00	.....
1925	1,724,757.25	52,145.02	66,710.70	80,040.80	.....	1,325,524.63	100,066.05	.....	.....	.....	204.00	.....
1926	1,749,757.25	.....	.....	106,701.00	.....	809,631.25	230,000.00	.....	.....	.....	195.00	.....
1927	1,306,256.25	64,421.29	NEW	106,999.21	.....	81,774.74	268,886.00	.....	.....	.....	7,654.50	.....
1928	1,016,301.48	95,563.74	HEALTH ACT	120,000.00	.....	.....	375,000.00	.....	.....	.....	177.00	\$25,862.30
1929	2,115,065.70	17,959.70	190,440.00	120,000.00	.....	631,498.00	325,000.00	150,000.00	330,000.00	.....	168.00	61,632.18
1930	1,183,624.17	103,624.17	140,000.00	120,000.00	.....	.....	.....	150,000.00	630,000.00	.....	150.00	90,197.77
1931	513,122.99	130,622.99	.....	120,000.00	.....	.....	.....	.....	262,500.00	.....	.....	84,619.43
1932	564,146.83	136,350.19	.....	120,000.00	.....	.....	.....	.....	307,796.64	.....	.....	88,390.37
1933	589,588.87	152,188.38	.....	145,000.00	.....	.....	.....	.....	267,387.50	.....	.....	91,074.46
1934	627,484.22	151,466.72	.....	145,000.00	.....	.....	.....	.....	319,017.50	.....	.....	89,017.67
1935	618,977.70	150,867.70	.....	145,000.00	.....	.....	.....	.....	308,110.00	.....	.....	85,969.65
1936	663,947.99	152,680.99	.....	145,000.00	.....	.....	.....	17,500.00	341,487.50	\$4,500.00	2,779.50 ^a	83,175.69

^a Not levied against cities.

^b Only levied against certain municipalities.

^c 1916 to 1922 levies, amounting to \$805,199.19 included in District Levy.

^d Premiums on Municipal Treasurers' Bonds.

APPENDIX C—PARTICULARS OF MUNICIPAL COMMISSIONER LEVIES, 1889 TO 1937

Year	Judicial District	County Court and Registry Office	Land Titles Office	Provincial Board of Health	Debenture Purposes	Wolf Bounty	Administration of Justice	Municipal Inspection	Municipal Guarantee	Municipal Audit	Sanatorium	Patrotic	Supplementary Revenue	Mothers' Allowances	Soldiers' Taxation Relief	Noxious Weeds	Child Welfare	Old-Age Pensions	New Health Act	Cancer Research	TOTALS	Good Roads	School Districts in Unorganized Territory	Pine Falls and Great Falls	Red Cross Nursing Stations	
1889		\$ 27,700.30	\$ 3,440.00																							
1890		\$ 24,090.44	\$ 4,150.00	\$ 4,852.08	\$10,191.85																					
1891		26,435.63	4,095.00		80,805.00																	8	46,332.13			
1892		29,045.68	4,771.84		17,890.46																					
1893		31,712.25	4,463.35		\$ 4,581.38	16,068.70																				
1894		34,015.61	6,102.89		5,812.91	16,162.68	\$1,476.45																			
1895		38,442.29	6,080.02		3,013.92	12,104.92	1,985.85																			
1896		37,597.62	5,801.17		3,006.88	15,072.82	2,281.87																			
1897		39,599.16	8,783.17		4,581.12	10,646.34	7,537.98																			
1898		34,025.14	7,377.92		6,333.55	11,876.33	8,407.96																			
1899		34,085.82	6,784.13		6,322.73	10,355.97	8,994.49																			
1900		34,415.78	6,842.54		5,655.30	9,305.77	4,989.15	\$17,370.03																		
1901		44,687.33	7,754.97		9,105.40	5,890.55	3,700.35	\$1,006.45																		
1902		35,040.60	11,542.68		10,133.37	8,524.58	4,901.53	\$9,033.37																		
1903		18,004.85	10,640.80		10,173.17	5,671.93	4,019.26	4,182.23																		
1904		18,576.04	10,510.92		10,880.08	2,800.32	4,119.47	4,822.41	\$1,925.19																	
1905		11,092.34	10,419.59		10,451.20	2,140.20	4,000.95	4,145.04																		
1906		16,488.27	10,369.86		11,553.25	2,054.80		4,347.35																		
1907		16,822.86	11,607.65		12,558.77	1,023.40		6,306.53																		
1908		20,550.17	12,494.71		11,459.46																					
1909		20,109.45	15,086.63		13,060.63			10,359.63																		
1910		20,003.71	14,424.34		10,728.62			4,744.03	4,662.00	\$16,047.08																
1911		50,539.45	14,548.59		11,505.10			3,958.39	5,309.06	5,200.74																
1912		46,215.94	14,873.06		15,020.20	321.00																				
1913		67,840.86	10,108.78		10,108.78	312.00			5,640.00																	
1914		155,086.80	10,953.80		16,676.11	309.00					\$ 28,659.06															
1915		145,410.89	22,342.27		15,870.73	294.00			4,450.00		24,409.65															
1916		201,075.22	22,043.54		20,076.22	255.00					27,004.14	\$1,935,377.80														
1917		201,646.90	22,414.34		40,400.05	276.00			6,340.60		27,167.38	1,457,554.00														
1918		237,210.03	22,014.68		47,072.72	807.00					56,541.69	1,022,344.45														
1919		225,161.70	23,835.91		47,722.15	828.00					56,415.61	340,006.02														
1920		306,397.60	25,926.26		47,722.15	807.00					85,573.90															
1921		497,150.43	25,937.00		123,059.00	840.00					97,259.00															
1922		418,252.53	26,804.45		123,207.00	831.00					87,058.13															
1923		167,100.00			116,331.00	928.00					77,450.24															
1924		58,888.67			11,230.75	550.00					106,999.21															
1925		45,190.47	9,014.55		66,710.70	904.00					106,701.00															
1926						185.00					80,040.80															
1927		50,000.00	14,421.29			186.00					106,999.21															
1928		79,187.00	10,376.74			177.00					805,081.25															
1929		90,759.00	17,959.70			168.00					106,999.21															
1930		96,750.00	6,874.17			150.00					120,000.00															
1931		119,172.00	11,450.00								120,000.00															
1932		121,300.00	15,050.19								120,000.00															
1933		124,024.40	28,179.88								145,000.00															
1934		135,237.44	16,209.48								145,000.00															
1935		124,477.72	16,399.98								145,000.00															
1936		135,760.75	16,011.24								145,000.00															
1937		124,354.12	17,758.58								145,000.00															
		\$4,405,540.81	\$625,638.03	\$4,252.08	\$626,625.89	\$206,742.64	\$55,814.48	\$68,937.18	\$45,909.10	\$41,960.19	\$39,938.14	\$4,256,826.21	\$3,895,998.27	\$13,097,038.82	\$540,740.75	\$906,925.07	\$1,833.00	\$1,428,836.00	\$3,433,494.14	\$350,440.22	\$9,000.00	\$32,318,908.55	\$797,116.21	\$256,109.87	\$16,874.07	\$23,100.00

a Explanation of Mothers' Allowances:

1916	\$ 12,000.00
1917	25,000.00
1918	50,000.00
1919	80,000.00
1920	180,109.19
1921	800,000.00
1922	825,000.00

1916-22 included in District Levy 608,109.19

b Pine Falls only.



MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part VII

Analysis of Manitoba's Treasury Problem

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THE GOVERNMENT OF THE PROVINCE OF MANITOBA

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PART VII

ANALYSIS OF MANITOBA'S TREASURY PROBLEM*

THE INTENDED DESIGN OF THE DOMINION-PROVINCIAL FINANCIAL RELATIONSHIPS CREATED BY CONFEDERATION

The financial negotiations at the Quebec Conference which laid the basis for the financial arrangements of the British North America Act were conducted under the supervision of the Honourable Alexander T. Galt,¹ Minister of Finance for the United Provinces of Upper and Lower Canada. In a speech delivered by him at Sherbrooke on November 23, 1864, we find a full and clear statement of the ideas which lay behind the financial settlement set out in the Quebec Resolution, and particularly as to the basis on which the subsidies of the provinces were originally determined. We will shortly quote a portion of this address which deals with the financial position of the provinces, in order to stress the point that the subsidies payable to the provinces had a distinct relation to the limited powers which the provinces were expected to exercise, and a distinct relation to the restricted sources of revenue which were to be retained by them under the proposed terms of federal constitution.

Before Confederation the chief revenues of the provinces had been customs and excise—indirect taxes. These taxes were to pass to the Dominion at Confederation. Moreover, the provinces were to lose not only the customs and excise taxes, which they had levied until then, but they were also to lose the right to impose any form of indirect taxation and were to be restricted to direct taxation within the province in order to the raising of a revenue for provincial purposes. It should be noted here, because it will be necessary to refer to it again later, that a main reason for taking away from the provinces customs and excise and withholding from them indirect taxation was that there should be freedom of trade between the provinces of the Dominion.

With the transfer of customs and excise taxes to the Dominion, the local revenues remaining to the provinces were comparatively small. As these revenues were too small to support the functions of government which were left with the provinces, it was admitted that the Dominion had to help the provinces. It was provided that this help was to take three forms: (1) The Dominion was to pay interest on the so-called Debt Allowance, which may be described with substantial accuracy as follows: At Confederation each of the provinces had its own debt incurred mainly for canals, railways, public buildings, etc. The revenues which had paid the interest on this debt were largely customs duties and excise taxes. The Dominion, of course, took over the customs and excise taxes. It took over the assets—the canals, railways, and buildings—and it assumed the debt created by capital expenditures on these assets. The per

*This submission was prepared by the Hon. Stuart Garson, K.C., with assistance on statistical data from S. W. Christie and the research and permanent staffs.

¹ Later Sir A. T. Galt.

ANALYSIS OF MANITOBA'S TREASURY PROBLEM

capita debt so assumed in the case of Upper and Lower Canada was \$25.00 per head. A debt allowance was made to the other provinces of \$25.00 per head. Their debts were less than this allowance. The Dominion agreed to pay them interest at 5 per cent per annum on the deficiency or debt allowance so calculated; (2) Dominion grants for the support of provincial governments and legislatures; (3) Dominion grants on a per capita basis of the population of each province.

In discussing this financial set-up, the Honourable Mr. Galt in his speech at Sherbrooke on November 23, 1864, said:

LOCAL REVENUES AND EXPENDITURES

Now it was necessary to provide by some means for maintaining certain local expenditures of the various provinces. There were the public works to be kept in order, the educational institutions to be maintained, the systems of civil law to be administered, and there were a variety of other claims to be attended to, which would naturally suggest themselves at once to any one who reflected on the subject. For this purpose, it was found necessary to assign them certain local revenues, of which the territorial revenues formed the bulk. These local revenues amounted in 1863, in the Maritime Provinces, to the following sums:

Nova Scotia	\$107,000
New Brunswick	89,000
Prince Edward Island	32,000
Newfoundland	5,000
Total	\$233,000

These were the revenues that would not be transferred to the general government but would be disposed of by the local governments for local purposes. In the case of Upper and Lower Canada together—and he preferred taking them together since it was for the legislature and not for him to indicate what the several liabilities of Upper and Lower Canada respectively were—in the case of Upper and Lower Canada unitedly, these local revenues amounted to \$1,297,043. Now one objection to Confederation was made on the ground of expense, and in order to meet this, every effort had been made to reduce the cost of the local governments, so that the local machinery should be as little costly as possible, for it would not do to affront the intelligence of the people, and tell them we had devised an expensive kind of machinery to do a very insignificant amount of work. The gentlemen from the Lower Provinces had been asked what reductions they could make in the government of the several colonies, and the figures he was about to give would be most satisfactory as showing the disposition of those gentlemen, who had reduced their requirements to the lowest sum. In her estimate of outlay for 1864 for objects of local character the province of Nova Scotia had provided for an expenditure of no less than \$667,000, but had undertaken to perform the same service in future under a Confederation for \$371,000, or a reduction of 40 per cent. The expenditure of New Brunswick in 1864 for the same objects was estimated at \$404,000. From causes explained at the time and shown to be satisfactory, she proposed to reduce the expenditure to \$353,000, and at the same time undertook within ten years to make a further reduction of \$63,000, making a total reduction to \$290,000. Prince Edward Island would reduce her expenditure from \$170,000 to \$124,000, and Newfoundland from \$479,000 to \$350,000. In regard to Upper and Lower Canada he would not undertake to say what reduction would be made; but he could show

that under the scheme proposed they would have the means of limiting the present outlay which was, taking the average of the last four years, \$2,021,979. Besides that there would be an additional item brought against them for the interest on the excess of their debt over that of the other provinces, making their full local charge \$2,260,149, which was the present outlay of Canada for works which would not become a charge under a Confederation. The outlay of all the provinces being however greater than their local revenues it became necessary to make provision out of the general fund for the purpose of enabling their local legislatures to carry on the machinery of government. It was proposed to take away from them every source of revenue they possessed except minor local revenues, and then to give them from the public chest a sufficient subsidy to enable the machinery to work. The estimate was formed on the wants of Nova Scotia. It was at first proposed to form it on the wants of New Brunswick, but these were found greater than those of the former, which had consequently been taken as the basis. The estimate was that 80 cents a head on the population of Nova Scotia would be sufficient to enable her to work her local system. She would want \$264,000. In the case of Upper Canada, 80 cents a head was considerably more than she wanted at the present day, and in the case of Lower Canada was at least adequate with the present local funds that would become available to her. But it was felt that in giving a subsidy from the public chest it was impossible to draw a distinction between one part of the country and another. But it was not intended to hold out any inducement to future extravagance to local governments, but it was hoped that by the operation of natural causes such a check would be put upon expenditures as would bring them down to the lowest point, or at least prevent them from becoming lavish. Therefore the subsidy proposed to be given to local legislatures was fixed, not at an increasing rate according to population, but at the rate which existed at the census of 1861. By this means, as the population increased, the subsidy would not increase with it. Upper and Lower Canada would thus get within a fraction of two million dollars, and when their population increased to five millions instead of two and a half, would get no more. If they increased their expenses in proportion to the growth of population they would be obliged to resort to direct taxation; and he thought they might trust the people themselves to keep a sharp watch over the local governments lest they should resort to direct taxation. He thought no surer check could be put upon them than thus fixing the grants they were respectively to receive. To put the position of the several provinces into one view, taking the basis of 1864, and assuming that as the basis of the Confederation, were it to take place today or on the first of January next, the several provinces united would possess a revenue of \$14,230,000; from which they would have to disburse \$1,530,043; and would also have to give a subsidy to the Provinces of \$3,056,849. Therefore, there would remain available for the purposes of the Confederation \$9,643,108. The expenditure of all these provinces amounted, in 1864, to \$12,507,591, of which for local outlay there were no less than \$3,954,212, which would be assumed in consideration of receiving the subsidy and local revenues. Thus the expenditure would be reduced as charged upon the general revenue to \$8,553,379, or \$1,100,000 less than the amount that would in 1864 be available for the purposes of Confederation. He thought this statement was one which would be received as satisfactory in regard to the proposed co-partnership they were about to enter into. In the present state of affairs we found that by uniting all our means, and taking out all wanted for local purposes, there would be left for the general government upwards of a million and a quarter dollars, over and above our present expenditure. Considering this they might hope that in bringing the general administration of the country under one government, there would be a certain amount of economy effected, and an additional efficiency imparted to the government. It might be true they would be obliged to incur some expenditure in keeping up local legislatures, and he was not prepared to deny that; but at the same time they might reasonably hope that when there was taken from them a large share of the subjects previously legislated upon, and putting

under one head what was now done under five or six different heads, an economy would be effected: but without making any allowance for what would be achieved in this way they would have means to meet all the demands for 1864 and have a respectable surplus over.

Sir A. T. Galt evidently envisaged local government doing what he referred to as an "insignificant amount of work," by an inexpensive kind of machinery, supported by Dominion subsidies which would not increase according to the growth of population, but would remain at the rate which existed at the census of 1861.* The Fathers of Confederation had in mind certain specific, well-known local expenditures for the provinces—"public works to be kept in order, the educational institutions to be maintained, the systems of civil law to be administered" and "a variety of other claims to be attended to, which would naturally suggest themselves at once to anyone who would reflect upon the subject." The only expenditures which it was at that time expected that the provinces would be called upon to make were for matters which were then well known and within the cognizance of anyone "who reflected upon the subject." No one at the time of Confederation contemplated that there would be thrown upon the provinces and municipalities vast expenditures, unforeseen and novel. Consequently no provision was made in the financial plan for the large expenditures which would be needed therefor. While the provinces were given the power of direct taxation, it was intended that they would be "obliged" to resort to that power "if they increased their expenses in proportion to the growth in population." The whole set-up for local government was predicated upon the small amount of local administrative work that was to be done by means of simple and inexpensive machinery supported by territorial revenues and a fixed subsidy from the Dominion government. Apparently it was thought that these two sources of revenue would be adequate if the duties with which the local government was charged were discharged with simplicity and economy; and that these two revenues would require to be supplemented by direct taxation only under unusual circumstances. Moreover, the idea was that the people would keep a "sharp watch" over the local governments lest they should resort to direct taxation.

FINANCIAL PLAN OF CONFEDERATION UNSOUND FROM BEGINNING

The view is held by some eminent authorities that this financial plan of Confederation was unsound from the very beginning.

The Honourable Norman McLeod Rogers, writing under the title of "A Crisis in Federal Finance," in the Canadian Forum in November, 1934, stated:

The fundamental weaknesses in our system of federal and public finance have existed since the creation of the Dominion . . . The failure to develop a satisfactory scheme of Federal public finance in Canada is due in the main to the erroneous assumption which supported the original settlement in 1867 . . . These assumptions were carried over, with minor qualifications, into the revised settlement of 1907.

*The actual provision for subsidy payments differed in certain details from that which Sir A. T. Galt's language would seem to indicate. See British North America Act, 30 and 31 Vict. cap 3, s.112, 114 to 119 inclusive. See also Summary of Legislation Relating to Subsidies to Provinces, Department of Finance, 1934.

THE FOUR ERRONEOUS ASSUMPTIONS OF FINANCIAL
PLAN OF CONFEDERATION

Mr. Rogers goes on to enumerate these erroneous assumptions as follows:

That increased expenditures by the provinces would arise from expanding population rather than from the acceptance of new governmental obligations.

That any new obligations which the provinces might accept could be supported adequately by expanding territorial revenues or by direct taxation.

That the ends of Federal justice would be served by a uniform scale of per capita payments to all of the provinces of the Dominion.

That the provinces must be subsidized on the basis of equal per capita payments is perhaps the most flagrant error in the system of federal public finance.

In the Canadian Forum of December, 1934, "One Path of Reform," Mr. Rogers again writes:

It is not too much to say that the error of these assumptions and principles under the existing scheme of federal public finances could be exposed conclusively by any impartial and scientific investigation. A proper survey of Dominion-provincial financial arrangements must now take account of the incidence of tariff policy as an integral part of the tax system of the Dominion. It must be recognized, in other words, that the unequal effects of the tariff upon the wealth and income of the various provinces of the Dominion should be neutralized by direct subsidies or developmental expenditures, or in the alternative that differences in a taxable capacity of the provinces should be recognized as an essential feature in any scheme for the readjustment of the provincial subsidies.

The correctness of Mr. Rogers' view that there were fundamental weaknesses in the system of federal and public finances established by the British North America Act was indicated by the fact that it became necessary to give a series of special grants, which began, in the case of Nova Scotia, in 1869—two years after Confederation. These special grants are still continuing—the last instance being the interim subsidy increases granted to assist certain provinces, including Manitoba, pending the hearing of this present Commission.

When the provincial subsidies were increased in 1907, Sir Wilfrid Laurier said in the House of Commons:*

If the principle be admitted of a contribution being made from the Dominion treasury to the provinces, the provision made by the British North America Act for contributions to the provinces has proved to be absolutely insufficient and inadequate. The experience of forty years has brought this fact again and again to the attention of parliament and the people of Canada . . . not once, not twice, nor thrice, but periodically and systematically parliament has been asked at almost regular intervals to vote in favor of now one province and now another province appropriations far in excess of anything that had been stipulated in the British North America Act . . . All these have been made by parliament without any guiding principle, but simply as the expediency of the moment suggested, or rather as the financial difficulties of one province or the other were more or less urgent.

*See Hansard, 1906-7, vol III, p. 5297-8.

POSITION OF INDUSTRIAL PROVINCES UNDER FINANCIAL PLAN OF CONFEDERATION

The accuracy of Mr. Rogers' statement that the unequal effect of the tariff on the wealth and income of the various provinces of the Dominion should be recognized and neutralized is indicated by the fact that every province in Canada, with the exception of the two industrial provinces of Ontario and Quebec, has had to seek and obtain as a matter of need this special grant to which we have alluded. Ontario and Quebec, because of national trade policies which fitted in with their natural advantages, have been sufficiently prosperous to carry on without federal assistance by way of special grants.

WORKING OUT IN MANITOBA OF FINANCIAL PLAN OF CONFEDERATION

It is interesting to trace the working out of the plan of Confederation in the case of Manitoba.

For this purpose we have had Manitoba's revenues and expenditures broken down into the classifications used by the Bank of Canada in its comparative statement of provincial public finance, supplied to the National Finance Committee at Ottawa in December, 1936, namely:

Ordinary Expenditures .

1. Public Debt Charges.
2. General Expenses of Government.
3. Education.
4. Public Welfare.
5. Public Works (including maintenance of buildings).
6. Public Domain.

Ordinary Revenues

1. Dominion of Canada Subsidy and Other Grants..
2. Taxation.
3. Licenses, Fees, Fines, etc.
4. Natural Resources.
5. Revenue from Government Liquor Control.
6. Interest.
7. Refunds and Miscellaneous.

These classifications in the case of both revenues and expenditures have also been set up on a per capita basis. The information is contained in Tables 1 and 2.

TABLE 1—CLASSIFIED STATEMENT OF CURRENT ACCOUNT EXPENDITURES SHOWING RELATIVE PERCENTAGES AND PER CAPITA COST FOR EACH OF THE FISCAL YEARS ENDED DURING 1875, 1881, 1891, 1901, 1911, 1921, 1931 AND 1936

Schedule No.	1875		1881		1891		1901		1911		1921		1931		1936	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
EXPENDITURE																
1	Public Debt Charges															
2	General Expenses of Government															
3	Education															
4	Public Welfare															
5	Public Works (including maintenance of all buildings)															
6	Public Domain															
	Total															
	386,377.68	100.00	723,134.75	100.00	864,432.23	100.00	988,250.63	100.00	3,002,826.28	100.00	10,401,805.49	100.00	14,705,530.60	100.00	14,438,373.44	100.00
POPULATION OF MANITOBA																
41,000 (Estimated)																
62,200																
152,506																
255,511																
401,394																
610,118																
700,139																
711,056																
PER CAPITA COST:																
1	Public Debt Charges															
2	General Expenses of Government															
3	Education															
4	Public Welfare															
5	Public Works															
6	Public Domain															
	Total															
	82.11		83.71		84.90		85.87		86.61		87.05		88.00		88.50	

TABLE 2—CLASSIFIED STATEMENT OF CURRENT ACCOUNT REVENUES SHOWING RELATIVE PERCENTAGES FOR EACH OF THE FISCAL YEARS ENDED DURING 1875, 1881, 1891, 1901, 1911, 1921, 1931 AND 1936

REVENUE	1875		1881		1891		1901		1911		1921		1931		1936	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
DOMINION OF CANADA:																
Subsidy	\$86,412.58	88.08	\$ 99,176.78	56.54	\$455,695.74	73.77	\$ 483,087.06	47.95	\$ 838,247.08	24.27	\$1,470,991.42	15.01	\$ 1,500,755.76	10.61	\$ 1,780,922.07	12.27
TAXATION DUTIES:																
Succession Duties							\$ 3,398.40		\$ 165,860.02		\$ 299,105.38		\$ 492,023.00		\$ 372,044.00	
Corporation Taxes					\$ 2,708.13		36,101.28		97,237.85		1,111,352.16		672,531.61		1,000,603.14	
Railway Taxes							25,569.05		140,486.87				510,235.74		704,820.83	
Income Tax on Persons													871,728.37		916,522.06	
Special Tax on Wages and Other Income															1,750,130.63	
Gasoline Tax													1,176,911.19		1,824,900.54	
Auto Licenses									14,500.00		338,078.46		1,092,385.51		824,124.68	
Amusement Tax									339,249.00		551,629.00		361,629.00		100,800.80	
Old-Age Pension Levy											245,000.00		273,571.50		273,571.50	
All Other Levies							45,300.98				2,022,516.10		500,788.61		69,653.72	
Total Taxation Revenues					\$ 2,708.13	.46	\$ 111,080.40	11.01	\$ 418,064.84	12.10	\$4,910,901.10	43.98	\$ 5,973,273.89	40.02	\$ 7,833,358.00	53.81
NON-TAXATION REVENUES:																
Government Liquor Control Commission													\$ 1,860,763.49		\$ 1,904,686.49	
Telephone Interest									\$ 318,300.51		\$ 778,784.60		1,028,587.87		962,225.25	
Interest from School Lands Fund							\$ 22,915.33		183,547.29		286,340.02		273,970.81		295,760.58	
Other Interest			\$ 44,644.94				\$ 137,298.92		609,553.85		1,380,790.79		1,936,180.54		962,605.11	
Mines and Natural Resources													207,450.70		611,773.08	
Fines and Other Fees, etc.	\$ 8,030.14		\$ 16,155.77		95,911.78		100,490.48		610,463.64		855,028.21		604,791.66		567,717.32	
Miscellaneous	60,088.61		11,723.71		11,723.71		74,241.16		418,164.50		785,018.27		1,244,698.91		302,461.90	
Total Non-Taxation Revenues	\$ 8,854.74	11.92	\$ 76,238.55	43.46	\$12,180.33	2.00	\$ 413,945.86	41.04	\$2,197,858.77	63.03	\$4,018,908.09	41.01	\$ 7,172,601.04	48.77	\$ 5,193,292.54	35.92
GRAND TOTAL	\$74,272.32	100.00	\$175,415.33	100.00	\$560,489.29	100.00	\$1,008,053.35	100.00	\$3,454,190.07	100.00	\$9,800,860.61	100.00	\$14,705,530.60	100.00	\$14,360,373.21	100.00

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Although, as stated, the classification of items used in Table 1 is that used by the Bank of Canada, it is necessary to point out and make the following explanation with regard to the items of Public Welfare, Public Works, and Public Debt and Debt Charges.

The items Public Welfare and Education do not include the cost of the debt charges upon that portion of the public debt incurred in order to erect public buildings for educational and social service purposes, nor do they include the cost of maintenance of public buildings for these purposes. This cost of maintenance is included under the heading of Public Works maintenance. It is not large enough to warrant a separate table here showing the amount of it.

Table 1 indicates that the total per capita expenditure of \$3.87 in 1901 was only 16 cents more than the \$3.71 figure of 1881. This per capita expenditure increased from \$3.87 in 1901 to \$6.51 in 1911, about 75 per cent. But of the whole period between 1881 and 1936 the decade which showed the greatest percentage of increase in total per capita expenditure was that between 1911 and 1921, the decade in which the Great War occurred.

Table 3 contains a classified list of capital assets used for educational and social service purposes together with an estimate of public debt charges at 4 per cent upon the capital value thereof for the fiscal years ended November, 1915; November, 1921; April, 1931; and April, 1936. The fiscal year ended November, 1915, is the first year in which such detailed figures are shown in the public accounts.

FINANCIAL PLAN OF CONFEDERATION STILL WORKING REASONABLY WELL IN 1911

An examination of the revenue side of the account will show that, subject to the adjustments* which have had to be made in the Dominion government subsidy, Sir A. T. Galt's plan was still working in Manitoba as late as 1911, in the sense that it had not been necessary to levy taxes of an unpopular nature in order to meet expenditures. In 1911 there were corporation taxes, railway taxes and succession duty taxes, none of which were of an onerous character; there was also an auto license tax which produced the modest sum of \$14,500.00.

In 1911, when Manitoba was still relatively free from direct taxation, the Dominion government subsidy, expressed as a percentage of Manitoba's total current expenditures, was 24.27 per cent. It is noteworthy that in 1911 the per capita cost for the General Expenses of Government at \$1.34 and the per capita cost of the Maintenance of Public Works at \$1.37 were less than the cost of the same items in 1881 at \$1.60 and \$1.57, respectively. Per capita expenditure on Public Domain had increased over that of 1881, but was less than in 1891 and 1901. Per capita Public Welfare costs from 1881 had approx-

*In 1876 and 1879 special grants; 1882 and 1885, indemnities for want of public lands; 1912-13 and 1913-14 grant in aid of building construction; 1930-31 Natural Resources Settlement. See Summary of Legislation Relating to Subsidies to Provinces, issued by Department of Finance, 1934, pages 4 and 5.

TABLE 3.—CLASSIFIED LIST OF CAPITAL ASSETS RELATIVE TO EDUCATION AND SOCIAL SERVICE TOGETHER WITH ESTIMATED PUBLIC DEBT CHARGES AT 4% FOR EACH OF THE FISCAL YEARS ENDED NOVEMBER 30, 1915; NOVEMBER 30, 1921; APRIL 30, 1931; AND APRIL 30, 1936

	1915			1921			1931			1936		
	Education	Social Service		Education	Social Service		Education	Social Service		Education	Social Service	
Hospital for Mental Diseases:												
Selkirk.....		\$ 674,722.46			\$1,643,103.53			\$ 2,611,031.93			\$ 2,632,136.90	
Brandon.....		1,398,145.29			2,492,976.72			3,436,466.71			3,470,049.47	
Home for Incurables.....		465,570.23			610,946.74			670,310.67			672,535.33	
Agricultural College.....	\$4,640,113.13		\$4,056,473.56			\$4,077,806.63			\$4,077,806.63			
Normal Schools:												
Winnipeg.....	124,602.28		128,756.56			130,423.39			130,423.39			
Brandon.....	166,393.50		171,265.69			171,265.69			171,265.69			
Manitou.....	19,468.19		19,814.79			19,814.79			19,814.79			
St. Boniface.....	21,257.75		22,663.88									
Portage la Prairie.....		3,511.16			3,511.16	159.00			159.00			
Bacteriological Bldg., Winnipeg.....					130,643.40			132,754.02			3,511.16	
Detention Home, Portage Avenue.....											132,930.07	
Industrial Training School.....		359,294.56			366,459.52			398,471.69			398,471.69	
Manitoba School for the Deaf.....		113,222.86			844,192.21			1,170,734.84			1,170,734.84	
Home for Feeble Minded.....					529.45							
Ninette Sanatorium.....					255,000.00			255,000.00			255,000.00	
Psychopathic Building.....					92,754.82			92,973.87			92,973.87	
University of Manitoba.....			520,844.35			890,376.15			890,376.15			
Children's Aid Society Building.....					55,000.00			56,377.56			56,377.56	
New Sanatorium.....								87,017.98			129,138.35	
Industrial Training School for Delinquent Girls.....												
New Industrial Training School for Boys.....								56,138.00			69,188.29	
University of Manitoba, New Building, Fort Garry.....								62,645.29			85,209.53	
Road to University, Fort Garry.....						252,528.20			645,166.67			
Relief Works Projects.....						56,133.33			56,205.78			
Direct Relief.....								326,221.57			4,291,824.40	
Patriotic Purposes.....											9,914,003.61	
Soldiers' Taxation Relief.....					196,273.82			96,273.82			96,273.82	
Canadian National Institute for the Blind, Building.....					747,221.82			1,131,578.52			1,193,701.75	
Hospital Building Grants.....								50,000.00			50,000.00	
								63,329.20			52,324.80	
	\$4,971,834.85	\$3,014,466.56	\$4,919,818.83	\$7,438,013.19	\$5,598,507.18	\$10,750,836.83	\$5,991,218.10	\$24,766,385.44				
Estimated one year's interest at 4%.....	198,873.39	\$ 120,578.66	\$ 196,792.75	\$ 297,520.53	\$ 223,940.29	\$ 430,033.47	\$ 239,648.72	\$ 990,655.42				

imately doubled in each decade to reach 85 cents in 1911. The per capita cost of Education had increased approximately three and one-half times between 1881 and 1911.

These comparisons of the growth of expenditure are particularly interesting because we suggest that the figures for 1911 in Table 1 are the last figures representing the cost of discharging the functions of provincial government according to Sir A. T. Galt's financial plan created by Confederation. This point is noteworthy because, in spite of the fact that the Dominion subsidy had declined to 24.27 per cent of the total current revenues, it was still possible, to use the words of Sir A. T. Galt, "that by the operation of natural causes such a check would be put upon expenditures as would bring them to the lowest point or at least prevent them from becoming lavish"; and that "if they (provincial governments) increase their expenses in proportion to the growth in population, they would be obliged to resort to direct taxation"; and "that they might trust the people themselves to keep a sharp watch over the local government, lest they (provincial governments) should resort to direct taxation;" and that "no surer check could be put upon them than thus fixing the grants that they were to receive respectively." Up to 1911 the pressure of public demands for increased services had not been such as to necessitate the imposition of direct taxation of an unpopular nature upon any substantial scale. Of total revenues only 12.10 per cent were from direct taxation as compared to 63.63 per cent from non-tax revenues and 24.27 per cent from Dominion government subsidies.

PRESSURE UPON FINANCIAL PLAN OF CONFEDERATION OF NEW PUBLIC DEMANDS

But in the decade between 1911 and 1921 a great change took place both in respect of expenditures and, since once taxation is resorted to the amount of the taxes is but a reflection of the expenditures which they are levied to defray, in the rate and character of new taxation. In 1921, while all the headings of per capita expenditure rose substantially, by far the greatest increases were in respect of Public Debt Charges, which rose from \$1.22 per capita in 1911 to \$5.13 per capita in 1921; Education, which rose from \$1.39 per capita in 1911 to \$4.03 per capita in 1921; and Public Welfare Costs, which rose from 85 cents per capita in 1911 to \$2.41 per capita in 1921. It will be seen that these three items mentioned increased by 420 per cent, 290 per cent and 284 per cent, respectively, in that one decade.

An examination of the items under which the increases took place discloses the real cause of such increases. Under Public Debt Charges these were: government-owned grain elevators, government-owned Manitoba Farm Loans Association, the government-financed Rural Credits Scheme, the publicly financed Housing Scheme, a Good Roads system financed by the grants of borrowed money and by the guarantees of the government, and the new Parliament Buildings. With the exception of the public buildings, these items

are all expressions of new public demands for additional governmental responsibilities. Even the demand for good roads, which was met by the Good Roads system, was so different in degree from the type of demand previously made by the public for roads that it also was different in kind from any such demand theretofore made upon the Manitoba government.

FAILURE OF FINANCIAL PLAN OF CONFEDERATION TO CONTINUE FUNCTIONING IN ACCORDANCE WITH INTENTIONS OF FATHERS OF CONFEDERATION

Sir A. T. Galt's plan, which had begun to show signs of strain in the decade between 1901 and 1911, had now, in the decade between 1911 and 1921, suffered a complete collapse. No longer could it be said that the services discharged by the Manitoba government, and for that matter by all the other provincial governments in Canada at that time, were "an insignificant amount of work" to be done by an inexpensive kind of machinery and maintained by federal subsidy and local non-tax revenues, supplemented only in cases of unusual need, by direct taxation. The Dominion subsidy in 1921 as a percentage of the total current revenues of the province had sunk to 15.01 per cent.

FUNCTIONS OF THE CONSTITUTION AS AN INSTRUMENT OF GOVERNMENT

Why was the financial plan of Confederation breaking down? The answer cannot be better stated than in an article by the Honourable Mr. Rogers:

A Constitution is an instrument through which the community seeks to realize certain declared purposes. The institutions it creates and the powers given to those institutions are assimilated to the character of the purposes it is designed to serve. The British North America Act, 1867, was an expression of the political policy of *laissez faire*. According to the current opinion of that day the less government interfered with private business the better it was for the welfare of the community. The scope of government was narrowed by this philosophy.

The distribution of powers and the division of taxing powers between Federal and provincial agencies show the influence of the prevailing doctrine. The control of social services and the regulation of wages and hours of labour were not attributed to the Federal authority for the simple reason that such subjects were thought to be beyond the domain of government and to fall within the range of private or collective enterprise and freedom of contract. The Fathers of Confederation are not to be blamed for their failure to assign these subjects specifically to the national authority. These men were neither prophets nor soothsayers but practical statesmen whose political experience had been gained in the narrow field of colonial government. Their major fault lay in their evident assumption that the contracted boundaries of government which had been defined within the philosophy of *laissez faire* were fixed and unalterable. As a consequence of this fallacy they failed to provide within the Constitution the means of its own amendment in future years.

The growing demand for constitutional revision in Canada has proceeded *pari passu* with the awakening of a new social philosophy. That new social philosophy is in large part the product of industrialism. It originates in dissatisfaction with the social instability inherent in the modern organization of industry and commerce. Its objective is a larger measure of security for wage-earners to be obtained by the intervention of the State in the economic life of the community. In the pre-war period this new social philosophy had made little progress in Canada. The conditions

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favorable to its growth did not exist in this country. In our outlook and organization we were still an agrarian community. The industrial sector was relatively unimportant in our economic life until the turn of the century. Even in the first decade of the new century the true frontiers of expansion were on the western prairies. We were still in essentials an agrarian country although the industrial sector was expanding rapidly under the stimulus of western settlement and improved transportation. Under such conditions the defects of the Federal Constitution were not readily apparent. A rigid constitutional system will not necessarily produce friction while the economic life of the community is permitted to function for the most part in a regime of private enterprises and freedom of contract. The real difficulty arises when the economic system fails to function adequately under private enterprise and the need is recognized for a larger degree of social control. Then it becomes apparent that rigidities in the constitutional system must be relaxed in order to permit the degree of centralized control necessary to guide the economic system towards predetermined social objectives.*

The working out of Manitoba's financial history corroborates in the main Mr. Rogers' view here stated. An examination of the break-down of the items under which substantial increases occurred in the decade 1911 to 1921 will disclose this.

ANALYSIS OF INCREASE IN PUBLIC DEBT, 1911-1921

In Table 4 is shown the bonded debt of the province outstanding as at December 31, 1911, November 30, 1921, and April 30, 1936, being the respective fiscal year-ends of the years referred to.

PUBLIC EXPENDITURE

Public expenditure, which appears as \$2,996,599.99 in 1911, \$5,449,497.52 in 1921, and \$5,082,468.17 in 1936, is an item the first borrowing for which was in 1888 and the whole of which was incurred before 1921, and of which the records kept do not permit of any further break-down; but public accounts issued during the period appear to indicate that most of the moneys were used for the Agricultural College, mental hospitals and other public buildings.

PUBLIC BUILDINGS AND GROUNDS

It will be observed that in the period between 1911 and 1921 there was an increase of \$15,788,255.15 in debt for Public Buildings and Grounds, namely:

New Parliament and Other Public Buildings and Grounds	\$ 9,347,255.15
Mental Institutions	2,540,000.00
Educational Buildings	1,891,000.00
Sanatoria and Hospitals	255,000.00
Judicial Buildings, Gaols, etc.	1,755,000.00
Total	\$15,788,255.15

PUBLIC UTILITIES

There was an increase of \$7,836,643.37 in debt for Public Utilities which, however, was self-supporting.

*"The Dead Hand," The Canadian Forum, August, 1934, pages 421 and 422.

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DRAINAGE DISTRICTS

There was an increase in Drainage District debt of \$1,402,282.00.

NEW GOVERNMENT BUSINESS ENTERPRISES

The next division of debt which showed a very substantial increase is made up of a number of amounts borrowed for government business enterprises, as follows:

Government Grain Elevators.....	\$ 315,884.67
Manitoba Farm Loans Association.....	4,250,000.00
Government Rural Credits Societies.....	2,625,000.00
Settlers' Animal Purchase Act—Loans.....	383,474.00
Conservation of Cattle—Loans.....	77,719.50
Livestock Purchase and Sale.....	100,000.00
Seed Grain Advances.....	250,000.00
Total.....	\$8,001,578.17

It is noteworthy, as Table 4 indicates, that the total bonded debt of the province attributable to these and Co-operative Wheat Producers Limited advances, had grown, as at April 30, 1936, to no less than \$16,490,582.96.

These enterprises, moreover, have involved the province in principal losses estimated at this date to be \$8,557,173.00, or about 6.68 per cent of the total bonded debt of the province.

HOUSING SCHEME

The next item of increase in the bonded debt of the province between 1911 and 1921 represents a demand upon the government for social services which, up to that time, had no precedent in Manitoba's history. This is the housing scheme which involved an increase in capital debt of \$3,575,000.00. The total outstanding debt due by the province at date under this head is \$2,212,188.00. This money was loaned to municipalities and is recoverable from them, but at date there is seriously in arrears as to principal and/or interest a total of \$1,982,599.00.

GOOD ROADS SYSTEM

Then there appears in 1921 an item of capital expenditure on roads of \$3,923,333.33, which, as at April 30, 1936, had grown to the sum of \$18,077,331.46. The building of roads is, of course, a proper function of the provincial government and was so from the time of Confederation; but it is submitted that the difference in degree between the building and maintenance of roads for the period from 1870 to 1901—one function only amongst the "insignificant amount of work" left with the inexpensive local governments—and the building of extensive gravelled highways for motorized traffic with millions of borrowed money is so pronounced as to constitute a

TABLE 4.—STATEMENT OF THE BONDED DEBT OF THE PROVINCE OUTSTANDING AT EACH OF THE FISCAL YEARS ENDED DECEMBER 31, 1911; NOVEMBER 30, 1921; and APRIL 30, 1936, WITH THE CORRESPONDING PUBLIC DEBT AND SUNDRY CHARGES

PURPOSE	As at December 31, 1911	As at November 30, 1921	As at April 30, 1936
PUBLIC EXPENDITURE AND PUBLIC BUILDINGS AND GROUNDS			
Public Expenditure.....	\$ 2,996,599.99	\$ 5,449,497.52	\$ 5,082,468.17
Public Buildings and Grounds.....		9,347,255.15	9,354,990.17
Mental Institutions.....		2,540,000.00	4,172,496.00
Educational Buildings.....		1,891,000.00	2,971,426.83
Sanatoria and Hospitals.....		255,000.00	436,421.15
Judiciary Buildings, Gaols and Homes.....	361,826.66	2,116,826.66	1,962,226.94
	<u>\$ 3,358,426.65</u>	<u>\$21,599,579.33</u>	<u>\$23,980,029.26</u>
PUBLIC UTILITIES			
Telephones.....	\$11,002,326.66	\$17,088,970.03	\$20,401,656.05
Power Commission.....		1,750,000.00	6,497,296.44
	<u>\$11,002,326.66</u>	<u>\$18,838,970.03</u>	<u>\$26,898,952.49</u>
DRAINAGE DISTRICTS.....	\$ 2,973,853.66	\$ 4,376,135.66	\$ 5,434,482.00
ADVANCES AND LOANS RE AGRICULTURE			
Grain Elevators.....	\$ 1,000,000.00	\$ 1,315,384.67	\$ 1,020,932.55
Manitoba Farm Loans Association.....		4,250,000.00	9,830,450.57
Rural Credit Societies.....		2,625,000.00	1,724,012.75
Settlers' Animal Purchase Act.....		383,474.00	198,693.46
Conservation of Cattle.....		77,719.50	18,732.82
Live Stock Purchase and Sales.....		100,000.00	78,421.03
Seed Grain.....		250,000.00	244,400.00
Co-operative Wheat Producers.....			3,374,939.78
	<u>\$ 1,000,000.00</u>	<u>\$ 9,001,578.17</u>	<u>\$16,490,582.96</u>
CANADIAN NORTHERN RAILWAY (MINNESOTA SECTION).....	\$ 349,000.00	\$ 349,000.00	
HOUSING SCHEME.....		3,575,000.00	2,235,188.80
ROADS.....		3,923,333.33	18,077,391.46
UNEMPLOYMENT RELIEF.....			18,506,238.92
GOVERNMENT LIQUOR CONTROL COMMISSION.....			300,000.00
SUNDRIES			
Funding Current Account Deficit and Overdraft.....		\$ 3,088,188.00	\$ 5,070,000.00
Old Liability.....		1,000,000.00	1,000,000.00
Lignite Utilization Board.....		170,000.00	236,788.86
Patriotic Purposes.....		396,273.82	96,273.82
Soldiers' Taxation Relief.....		750,000.00	1,193,763.38
Discount and Exchange.....			4,535,909.65
Roseau River Protective Works.....			39,223.92
Survey of the Boundary.....			9,941.61
		<u>\$ 5,404,461.82</u>	<u>\$12,181,901.24</u>
	<u>\$18,683,606.97</u>	<u>\$67,068,058.34</u>	<u>\$124,104,707.13</u>
INTEREST, SINKING FUNDS AND SUNDRY CHARGES			
Interest Charges.....	\$ 551,084.83	\$ 3,104,216.67	\$ 5,951,505.12
Sinking Funds.....			333,321.67
Amortization of Debt Discount.....		7,982.39	160,289.29
Redemption of Municipal Guarantees.....			235,900.63
Sundry Other Charges.....	9,430.73	19,959.16	140,236.42
	<u>\$ 560,515.56</u>	<u>\$ 3,132,158.22</u>	<u>\$ 6,821,253.13</u>

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difference in kind. In fairness, it must be admitted, however, that from a financial standpoint, provincial taxation of the motor vehicles and their fuel, which necessitated the capital expenditure upon this new type of road, although direct, has in the main been acquiesced in by the motorists.

SUNDRIES

The break-down of this item is largely self-explanatory. It is a debt created for the most part in connection with discount and exchange on debenture issues, funding deficits, and expenditures for soldiers' taxation relief.

ANALYSIS OF PUBLIC WELFARE INCREASES, 1911-1921

Table 5 sets out the population data supplied by the Department of Health and Public Welfare for the years 1911, 1921, 1931, and 1936, with regard to the number of patients treated and patient days under the heads of:

Mental Disease	Persons Cared for in Privately Owned
Per Capita Grants for Hospitalization	Homes
Child and Family Welfare	Destitution in Unorganized Territory
Public Welfare Institutions	

TABLE 5.—CLASSIFIED STATEMENT OF NUMBER OF PATIENTS AND PATIENT DAYS
FOR THE YEARS 1911, 1921, 1931 AND 1936

	1911	1921	1931	1936
MENTAL DISEASE:				
Patients Treated.....	1,522	1,769	2,557	2,924
Patient Days.....	373,395	452,600	677,806	792,670
HOSPITALIZATION PER CAPITA GRANTS:				
Patients Treated.....	22,401	(No report.	55,700	71,578
Patient Days.....	501,782	Information unavailable)	869,493	1,048,454
CHILD AND FAMILY WELFARE:				
Deserted Wives Families.....	.....	63	5	5
Mothers' Allowance Cases.....	.....	648	1,042	1,140
PUBLIC WELFARE INSTITUTIONS:				
Patients Treated.....	212	396	539	415
Patient Days.....	76,048	122,932	175,564	163,653
PRIVATELY OWNED HOMES:				
Persons Cared For.....	.....	6	257	387
DESTITUTION IN UNORGANIZED TERRITORY:				
Cases.....	.....	.....	262	402

Table 6 sets out a break-down of Public Welfare expenditures in the years 1911, 1921, 1931, and 1936 under various headings.

MENTAL DISEASES

It will be observed that although there was only a moderate increase in the number of patients treated for mental diseases and in the number of patient days, yet the total cost for maintenance of patients alone increased from \$236,567.41 to \$553,424.37, indicating a substantial increase in the cost per patient day during the period between 1911 and 1921.

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TABLE 6—STATEMENT OF EXPENDITURE FOR PUBLIC WELFARE FOR EACH OF THE FISCAL YEARS ENDED 1911, 1921, 1931, 1936

	For the Fiscal Years Ended During					
	1911	1921	1931	1936		
Administration.....*	\$	16,337.81	\$	44,528.23	\$	38,754.55
Public Welfare—Maintenance of Aged and Incurable Persons (Institutional).....	\$ 33,102.55	102,144.25	153,631.20	152,037.17		
Public Welfare—Maintenance of Incapacitated (outside Institutions).....	839.73	12,396.96	60,392.29	49,808.98		
Child and Family Welfare.....		469,201.82	579,204.80	516,659.40		
Mental Disease.....	236,567.41	553,424.37	675,262.33	544,604.03		
Board of Health—Disease Prevention.....		35,000.00	186,651.31	143,736.72		
Board of Health—Vital Statistics.....	4,909.99	528.81	12,912.71	11,316.84		
Board of Health—Hospitalization.....	77,989.90	182,773.89	469,248.90	490,277.09		
Grants to Institutions Contributing Social Services	36,850.00	52,809.52	48,238.25	28,050.00		
Old-Age Pensions.....			708,780.12	639,662.83		
Miscellaneous.....		47,074.56	29,426.43	21,539.75		
Total.....	\$390,259.58	\$1,471,691.99	\$2,968,276.57	\$2,636,447.36		

*Not possible to establish comparable figure.

PUBLIC WELFARE INSTITUTIONS

The number of patients treated in public welfare institutions and the number of patient days almost doubled, whereas the cost of maintenance more than tripled, this again indicating an increased cost per patient day for this period.

HOSPITALIZATION

Unfortunately the statistics with regard to the number of patients treated and the number of patient days for hospitalization, which were, during the period 1915 to 1920, kept by another department, are not available, but an increase in cost is indicated from \$77,989.90 to \$182,773.89, or an increase of approximately 250 per cent.

CHILD AND FAMILY WELFARE

This item, which did not appear at all in 1911, first appeared in the public accounts of 1917, following the passing of the Mothers' Allowance Act in 1915. There was a rapid increase in this item from \$55,732.00 in 1917 to \$469,201.82 in 1921, from which sum it increased to \$579,204.80 in 1931 and then declined to \$516,659.40 in 1936. The high point of this service was in the year 1929 when the sum of \$643,248.89 was disbursed.

In the aggregate, Public Welfare costs increased from \$390,259.58 in 1911 to nearly four times that much, or \$1,471,691.99, in 1921. In the main this increase is due to the new social service of widows' and children's pensions inaugurated under the Mothers' Allowance Act of 1916, and to the increased cost per patient day of taking care of a not abnormal increase in the number of aged and insane persons.

During the fiscal year 1930 all expenditures for the Provincial Board of Health were absorbed in the annual budget of the province. Prior to that date

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expenditures were made by the Board of Health as a separate body and special levies were made by the Municipal Commissioner to reimburse the Board for its expenditure.

The province continues to absorb these expenditures, but the special levy has been abolished.

ANALYSIS OF EDUCATION INCREASES 1911-1921

Inasmuch as the public schools of Manitoba are financed about 85 per cent by the municipalities and about 15 per cent by the provincial government, the increase in provincial expenditure for Education cannot be so significantly analyzed by itself as in the case of Debt Charges and Public Welfare charges. At a later point in this brief the whole question of school financing, which is so closely related to the provincial budget, will be briefly considered. At this point we think the break-down of the provincial government's expenditure on education in 1911 and 1921 given in Table 7, together with the other facts which immediately follow, will suffice to give a sufficient picture of the 1911-1921 increases.

TABLE 7—GOVERNMENTAL EXPENDITURES FOR EDUCATION IN THE
YEARS 1911 AND 1921

<i>Year</i>	1911	1921
Office.....	\$ 20,238.00	\$ 45,007.41
Normal Schools.....	50,092.64	81,247.93
School Inspection.....	41,921.25	104,824.03
Free Texts.....	14,074.09	37,308.82
Examinations.....	16,596.82	35,574.70
Printing and Miscellaneous.....	3,948.60	40,397.69
University of Manitoba and Agricultural College.....	{ 30,143.85U 74,948.84A	372,128.00U 422,208.19A
Educational Grants.....	331,408.91	1,109,882.66
Vocational Education.....	6,009.11	24,945.30
Deaf-Blind and Delinquent.....	53,589.78	180,716.86
Total for Year.....	\$642,971.89	\$2,454,241.59

EXPENDITURES AND RECEIPTS FOR EDUCATION IN THE
YEARS 1911 AND 1921

<i>Year</i>	1911	1921
School Population:		
Elementary.....	74,512	120,400
Secondary.....	6,336	8,615
Total.....	80,848	129,015
Number of Teachers.....	2,868	3,708
Teachers' Salaries.....	\$1,452,630	\$4,335,529
Total all Expenditures.....	\$5,023,890	\$13,079,205
Receipts—Amount:		
Local Taxation.....	\$1,847,380	\$6,922,864
Provincial Grants.....	331,409	1,109,883
Total for year.....	\$2,178,789	\$8,032,747
Receipts—Percentage:		
Local Taxation.....	85.0%	86.0%
Provincial Grants.....	15.0%	14.0%

It will be observed that the expenditures here shown are much more than the total of provincial grants and local taxation. This is due to the fact that in their returns the secretary-treasurers of school districts do not distinguish between current and capital expenditures. It is, therefore, roughly accurate to say that the difference between total expenditures and the moneys received from local taxation plus provincial government grants represents the proceeds of borrowings used for building and other capital expenditure.

In regard to Table 7 it is important to know the following facts:

Between 1911 and 1921 rural Manitoba (i.e., all Manitoba, excepting the city of Winnipeg), increased educational expenditures from \$2,677,327 to \$9,323,619, an increase of \$6,645,675 or 348 per cent. A portion of this increase was due to the increase in provincial grants but a much greater portion was provided from local taxation, which in the same period for the whole province increased from \$1,847,379 to \$6,922,864.

Some part of the added expenditure was used for an increasing and expanding building programme but the major portion was represented in the improved type of education provided. There was an improvement in attendance, an increase of almost 50 per cent in school population; improved standards of teaching efficiency and an increasing number of teachers responding to the increase in school population. The average teachers' salary for this period rose from \$456.00 in 1911 to \$1,019.00 in 1921, based on all teachers' salaries, elementary and high school, in rural Manitoba.

It may, however, be reasonably assumed that during this period of relative prosperity rural Manitoba made a definite effort to raise the standard of education. It is a matter of record that in the period since 1921 rural Manitoba has had to so drastically reduce expenditures as to sacrifice much of the gain made previously.

During the same period in the city of Winnipeg, despite the relatively larger increase in the number of students, the total expenditure only increased 50 per cent and the average salaries of teachers increased from \$837.00 to \$1,697.00. The relative lower increase in expenditure in Winnipeg is undoubtedly due to the fact that its 1911 level of education was relatively much higher than that of rural Manitoba and there was not the same need for expenditure.

DECLINE OF DOMINION SUBSIDY AND INCREASE OF DIRECT TAXATION AS PERCENTAGE OF PROVINCIAL REVENUE

As will be seen from Table 1, the expenditures on current account increased from a total of \$3,002,826.28 in 1911 to \$10,401,895.49 in 1921, or a per capita increase of from \$6.51 to \$17.05.

In Manitoba, as Table 2 will show, while the Dominion subsidy as a percentage of current account revenue has declined steadily from 1875, when

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it was 88.08 per cent, until 1911, when it was 24.27 per cent, the non-taxation revenues had taken up the slack by increasing from 11.92 in 1875 to 63.63 per cent in 1911. Thus, in spite of the fact that the Dominion government subsidies in 1911, as a percentage of the total current account revenue, were less than a third of what they were in 1875, the non-taxation revenues as a percentage of the total current account revenue, having increased almost six-fold, had taken up the whole slack with the exception of taxation revenues, which, as a percentage of total current account revenue, were in 1911 only 12.10 per cent.

In Appendix A attached hereto are shown the amounts credited to the current revenue account of the province from all direct taxes levied in Manitoba's financial history from the time when such direct taxes were respectively first levied until the present.

An examination of this appendix reveals that the direct taxation levied in 1911 under the headings of Succession Duties, Corporation Tax, Railway Tax and Automobile Licenses was not, in its amount at any rate, of the onerous character conceived by Sir A. T. Galt as a check upon governmental extravagances or reckless expenditure. Upon the whole, therefore, although there were trends in government expenditure between 1901 and 1911 which reflected a growing social consciousness on the part of Manitobans and a corresponding 75 per cent increase in per capita expenditure, it may be said that the Galt plan was still working reasonably well.

But this could definitely not be said in 1921 when the Dominion government subsidy, as a percentage of the total current account revenue, had declined to 15.01 per cent and the non-taxation revenue to 41.01 per cent, thus necessitating the imposition of direct taxes for the amount of 43.98 per cent. Appendix A indicates that by 1921 at least five of them fell definitely into the category of direct taxation of the kind conceived as a check by Sir A. T. Galt.

These demands for increased social expenditure, having once been realized, have increased steadily until the present time. Their fulfilment has forced the government of Manitoba to impose direct taxation upon the people of Manitoba beyond any limits which could possibly have been conceived when the financial plan of Confederation was enacted.

Thus, in 1936, we find that the Dominion government subsidy as a percentage of the total current account revenue was 12.27 per cent, whereas taxation revenues were no less than 53.81 per cent. In 1936 the non-taxation revenues of the province at 33.92 per cent of the total current account revenue were less than the percentages for 1901, 1911, 1921 or 1931. In other words, the non-taxation revenues as one indication of the income of the province had declined, yet in spite of this decline which would ordinarily indicate a policy of lower taxation, it was necessary to increase the taxation revenues as a percentage of total current account revenue of the province by a substantial percentage over what they were in either 1921 or 1931 and to more than four times what they were in 1911.

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NEW PUBLIC DEMANDS UPON PROVINCIAL GOVERNMENT CAUSE IT TO COLLECT AND SPEND INCREASING PERCENTAGE OF PROVINCIAL INCOME

One of the first results from these new demands upon the Manitoba treasury was that it commenced spending amounts which were a constantly increasing percentage of the provincial or people's income. These amounts were, of course, collected by taxation. As this percentage increased, the interest of the treasury in provincial income took on a new concern as to the effect of all those factors which determined provincial income. In 1881, when the provincial treasury had merely to provide for police protection, education, administration of justice and public works, it was under no necessity to concern itself as to the effects of federal tariff or monetary policy upon provincial income. But it could no longer afford to ignore these factors in 1921 when the provincial treasury had to impose large amounts of taxes upon that income to defray the increasing costs of government, brought about by meeting new demands for social services and for new governmental facilities.

PROVINCIAL GOVERNMENT HAS NEW CONCERN IN DOMINION POLICIES AFFECTING INCOME OF CITIZENS OF PROVINCE

For this reason provinces have come to have a vital concern in Dominion policies as affecting not only the provincial income but also its distribution within different income brackets.

The real turning point in Manitoba's financial history came in the period between 1911 and 1921. From that point on until the present time it has been merely a working out of the trends which first made their appearance in that decade, accelerated, it is true, by the depression and crop failures which intensified the effect upon Manitoba's economy of the disabilities under which the citizens of Manitoba have suffered under Confederation.

PERIOD 1922 TO 1937 COVERED BY BANK OF CANADA REPORT

The Bank of Canada report upon the financial position of the province of Manitoba, made on February 11, 1937, states concisely the gist of Manitoba's developing financial position from 1922 to 1936. It would therefore be an act of supererogation to add to it at this time. The Commission should note, however, in using the figures of the Bank of Canada report that necessary adjustments were made to set them up in the form that the Bank of Canada officials desired to use for their own purposes, whereas the figures that we have used herein are simply extracted from the books of the province and set up without adjustment of any kind. Inasmuch as the gentleman who prepared the figures for the Bank of Canada report is the secretary of the Commission, it is assumed that any reconciliation which the members of the Commission may desire will be provided by the Commission's secretarial staff. The Bank of Canada report is set out as an Appendix B to this submission.

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A statement of the province's present position, however, would not be complete without developing in a minimum of detail paragraph five of the summary of the Bank of Canada report reading as follows:

We understand it to be the view of the government that additional funds must be obtained for the preservation of the road system, for education and for mental institutions. While we do not feel qualified to estimate here how large an amount is needed for additional expenditures of a character which cannot be postponed, we agree that some additional expenditures are inevitable, and we are not prepared to say that it is practical to increase revenues by further taxation.

As regards the funds required for the preservation of the road system, for education and for mental institutions and other governmental services, we feel that the most satisfactory way in which we can indicate these needs is by stating a series of facts relating to the administration of the various government departments rather than by making any comparison between Manitoba and other parts of Canada as regards the amount of per capita expenditures upon the various items of governmental service. We do this because of the great difference between the various provinces of Canada in the matter of customs, living costs and other circumstances which would have to be adjusted to a comparable basis before a statistical comparison of governmental expenditure could be made as between the provinces. Instead, we propose to present the actual facts which obtain in Manitoba with a view to enabling the Commission to reach a decision as to whether a proper minimum standard of education, social services, road maintenance and public administration generally now prevails in this province. We shall do so under the following heads:

1. Present budget deficiency in provision for Education.
2. Present budget deficiency in provision for Public Works and Roads and the Maintenance thereof.
3. Present budget deficiency in provision for Public Health and Welfare.

BUDGET DEFICIENCY IN PROVISION FOR EDUCATION

The following is a statement of the extent of the inadequacy of the present financial provision for education in Manitoba, prepared by the officials of the Department of Education.

The history of educational finance in Manitoba between 1911 and 1936 divides naturally into two periods; the period 1911 to 1921 evidencing a continuous growth and expansion of educational services (and which we have already very briefly covered); and the period 1921 to 1936 representing a gradual but annual decrease in expenditures, resulting in a process of attrition that left educational standards impaired, essential services starved or eliminated, and increasing evidence that further financial support of schools would have to be provided by means other than the taxation of real property.

PRESENT SYSTEM OF SCHOOL FINANCING

Inasmuch as the public schools of Manitoba are financed about 85 per cent by the municipalities and 15 per cent by the provincial government grants, and as many of the original records from which statistics are taken are kept by the secretary-treasurers of some twenty-two hundred odd school districts in the province, it is difficult to establish an accurate statistical ratio between increased educational grants by the provincial government and the increased cost of school facilities.

To the end that the relationship between the Department and the school district may be better understood, we may explain the method of financing school districts with substantial accuracy as follows:

The school district receives:

- (1) a statutory grant of \$2.50* per day per teacher for not more than 200 days per school year from the municipality;
- (2) a statutory grant of 75c† per day per teacher for not more than 200 days per school year from the Provincial Department of Education;
- (3) a special school tax computed as follows:

The secretary-treasurer of the school district adds together the two aforesaid statutory grants, and deducts the total of them from his estimated expenditure for the school year. He then requests the municipality in which his school district is situated to levy upon the assessed value of the lands in that school district a special school tax over and above all other municipal and school taxes, sufficient to produce the difference between the total of the statutory grants from the government and the municipality on the one hand, and the estimated expenditures of the school district upon the other;

- (4) certain discretionary special government grants, not exceeding \$200 per teacher, granted upon the basis of need and upon the recommendation of the school inspector;
- (5) certain special government grants for equipment, operation and maintenance, such grants to be approved by the Lieutenant-Governor-in-Council;
- (6) for the period from 1924 to 1933 certain automatic special grants to weaker school districts, upon the basis of the school district's equalized assessment, the grant being at maximum of \$3.25 per day per teacher

*As from Jan. 1, 1938, decreased to \$2.25 per day per teacher.

†As from July 1, 1937, increased to \$1.00 per day per teacher.

to a school district with less than \$10,000.00 equalized assessment and declining by 25c per day for each increase of \$5,000.00 in equalized assessment. These grants were made in a period of distress to help weak school districts and were called Special Assessment grants from the method by which they were arrived at, or Murray Commission grants from the Commission which recommended them to the Manitoba government.

Thus the government gives a fixed statutory grant per teacher day and the municipality a similar fixed statutory grant, and the municipality at the request of the school district levies upon the school district for enough to make up the balance of the school district's budget. The special discretionary government grants are not invoked unless this system in individual cases breaks down (or unless, as in the case of the Murray Commission grants, because of wide-spread distress a special provision for automatic supplementary grants has to be made on a large scale).

In an attempt to overcome operating deficits it is first required that a special tax be levied upon the school district. Not until that has been tried and failed are the special discretionary government grants invoked. The first tendency upon the part of the school trustees in times of distress is to cut expenses, including the school teacher's salary, which, of course, is usually by far the largest single item. Thus the amount which the government at its discretion has been called upon to pay for special grants (other than the Murray Commission grants which were automatic) is not by any means an exact measure of the inadequacy of the financial provision for education. Such facts as amount of teachers' salaries, the dilapidation of school buildings, default in the payments of school districts' current and bonded debt, the number of schools under official trusteeship, the number of districts operating for less than the full term, the number of schools with more pupils than can be efficiently taught, the amount of school taxes in arrears, all have a bearing. It will be clear from what we have said that it is difficult to co-ordinate these facts and show their exact connection with the adequacy of the present school financing. As a matter of fact, the present method of financing Manitoba's schools does not lend itself to statistical delineation upon the point of adequacy, but we shall do our best with the material at hand. If significant figures are difficult to procure in proper terms of one another, the facts at least will speak.

Moreover, the financing of education in Manitoba is complicated by two important factors:

- (1) As we have seen, the real burden for educational costs (approximately 85 per cent) is borne by the local units (school district and municipality) from revenue raised almost entirely by real property taxation.
- (2) The province has one large city, Winnipeg, which contains approximately one-third of the entire population and owing to greater

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concentration of wealth and population can afford a much higher standard of education than the rest of the province under the present basis of school financing.

Any comparison of statistics that includes Winnipeg on the same basis as the other parts of the province is obviously misleading because its situation is entirely different. Consequently in Table 8, which follows, we set out the number of teachers, the amount of teachers' salaries (excluding salaries for supervisors and substitute teachers), the amount of total expenditures, and the school population for the city of Winnipeg; for the province excluding Winnipeg; and for the province as a whole, in each case for the years 1911, 1921, 1931 and 1936.

TABLE 8—SCHOOL STATISTICS FOR WINNIPEG, RURAL MANITOBA, AND ALL MANITOBA

Year	School Population			Teachers		Total Expenditures including Capital
	Elementary	Secondary	Total	Number	Salaries	
CITY OF WINNIPEG						
1911.....	18,515	1,652	20,167	381	\$ 319,159	\$ 2,346,563
1921.....	32,746	3,020	35,766	874	1,483,757	3,755,587
1931.....	34,546	7,434	41,980	1,066	1,959,353	4,638,921
1936.....	29,669	8,022	37,691	1,012	1,704,393	3,425,070
RURAL MANITOBA (Manitoba, excluding Winnipeg)						
1911.....	55,997	4,684	60,681	2,487	\$1,133,471	\$ 2,677,327
1921.....	87,654	5,595	93,249	2,834	2,851,772	9,323,619
1931.....	100,663	10,910	111,573	3,361	3,428,047	7,076,504
1936.....	92,101	12,690	104,791	3,422	2,282,751	4,417,696
MANITOBA (including Winnipeg)						
1911.....	74,512	6,336	80,848	2,868	\$1,452,630	\$ 5,023,890
1921.....	120,400	8,615	129,015	3,708	4,335,529	13,079,205
1931.....	135,209	18,344	153,553	4,427	5,387,400	11,715,425
1936.....	121,770	20,712	142,482	4,426	3,987,144	7,646,302

NOTE.—The term "Rural Manitoba" as used in Table 8 and throughout will include all of the province excepting the city of Winnipeg proper.

The financial problems of the suburbs, the other cities in the province, the towns, villages and rural municipalities are all essentially the same, and from the standpoint of taxation their problem is essentially a rural one.

Table 9 shows the cash receipts of schools from: (a) provincial grants; and (b) local taxation; with related percentages for both.

It will be seen that since 1911 the percentage of actual cash receipts of schools in rural Manitoba shows the province paying a greatly increasing share, practically all of this increase having taken place since 1921. The share of the total paid by the province in rural Manitoba has risen from 16.6 per cent

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TABLE 9—CASH RECEIPTS OF SCHOOLS FROM PROVINCIAL GRANTS AND LOCAL TAXATION

Year	Amount of Receipts			Percentage of Receipts	
	Local	Provincial	Total	Local	Provincial
CITY OF WINNIPEG					
1911.....	\$ 431,230	\$ 58,894.82	\$ 490,124.82	87.9%	12.1%
1921.....	2,175,700	167,333.74	2,343,033.74	92.8%	7.2%
1936.....	2,683,740	196,686.48	2,880,426.48	93.1%	6.9%
RURAL MANITOBA (Manitoba, excluding Winnipeg)					
1911.....	\$1,416,150	\$272,514.09	\$1,688,664.09	83.9%	16.1%
1921.....	4,747,164	942,548.92	5,689,712.92	83.4%	16.6%
1936.....	2,951,733	903,456.72	3,855,189.72	76.6%	23.4%
MANITOBA (including Winnipeg)					
1911.....	\$1,847,380	\$ 331,408.91	\$2,178,788.91	84.7%	15.3%
1921.....	6,922,864	1,109,882.66	8,032,746.66	86.1%	13.9%
1936.....	5,635,473	1,100,143.20	6,735,616.20	83.6%	16.4%

in 1921 to 23.4 per cent in 1936. On the other hand, although the actual amount of the cash grant has increased in the city of Winnipeg, there has been a progressive decrease in the percentage of provincial contribution. In the terms of actual cash, rural Manitoba has decreased its cash contribution to education from \$4,747,164 to \$2,951,733, a reduction of \$1,795,431, whereas in the same period a broader and firmer basis of taxation in the city of Winnipeg has permitted an increase of local support from \$2,175,700 to \$2,683,740. Possibly no other example could more definitely illustrate the very great difference in ability to pay than this fact, namely, that in the period of depression rural Manitoba was forced to reduce its contribution from local taxes by approximately \$1,800,000, while Winnipeg was enabled to increase its contribution by over one-half million. It cannot be argued that there was a greater desire to pay in the city of Winnipeg, because as a matter of fact the rural areas taxed themselves far beyond the limit of their ability to pay. This fact is shown in the following tabulation which indicates the amount owing to the schools by the municipalities for school taxes in the area designated as rural Manitoba:

Year	Amount
1911.....	\$ 754,858
1921.....	642,194
1931.....	1,107,858
1936.....	2,240,394

The above figures do not include the city of Winnipeg because owing to its system of payment of taxes any comparison on the same basis is impossible, but it may be observed in passing that the city of Winnipeg, like the rural

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municipality, has acquired an enormous amount of property by way of tax sale and most of this property is a frozen asset from which only a small percentage of the actual claim of the municipality can be realized. Obviously, then, in the city of Winnipeg real property tax for school purposes has reached burdensome proportions.

The figures presented in the preceding tabulation do not give altogether an accurate rural picture because large amounts of arrears of school taxes have been written off. The Department of Education estimates that within the last five years the total amount written off has been not less than \$250,000. It is obvious that the municipalities are finding the burden of school taxation beyond their capacity to pay. If this burden were equalized it would be defensible, but as it is the burden bears most heavily on those municipalities least able to bear it. Remembering that the municipality pays the greater proportion of the total cost of schools, the ability of the municipality to pay is all important, but this varies tremendously, as is shown by the following tabulation indicating the respective amount of assessment as between certain broad educational units on the basis of 1935 equalized assessments:

	<i>Number of Teachers</i>	<i>Equalized Assessment Per Teacher</i>
Winnipeg	1,020	\$161,760
Rural Manitoba	3,406	86,100
All Manitoba	4,426	103,567

Briefly this indicates that behind each teacher in the city of Winnipeg, \$161,760 of property is available on which to collect the necessary school taxes, whereas in rural Manitoba, where the ability to pay is probably less, the equalized assessment per teacher is \$86,100, or about 54 per cent of what is available in the urban area. The inequity hereby revealed becomes, then, more startling when considered in the light of individual municipalities, data concerning which are presented in Table 10, on the following page.

In certain municipalities much land formerly taxable has reverted to the original owner, the province, the Dominion and the Soldiers' Settlement Board; on becoming Crown Lands these ceased to be liable for future taxation, thereby seriously embarrassing the school districts, which were organized and incurred obligations in expectation of taxes from these lands, and also increasing the difficulties of the municipality in which these lands are located. Moreover, in passing it may be pointed out that the unrestricted policy of the Dominion immigration scheme in early years was largely responsible for the settlement of non-productive areas which are now a source of difficulty to the province in such matters as the financing of schools.

The net result has been that the province has had to take over the administration of a large number of rural school districts consequent upon

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TABLE 10—NUMBER OF TEACHERS AND AVERAGE ASSESSMENT PER TEACHER
FOR INDIVIDUAL MUNICIPALITIES

Municipality	Number of Teachers	Average Assessment Per Teacher
DISORGANIZED MUNICIPALITIES		
Stuartburn.....	29	\$ 9,160
Kreuzburg.....	23	11,675
Chatfield.....	17	13,373
WEAK RURAL MUNICIPALITIES		
Armstrong.....	12	\$ 20,000
Siglunes.....	16	21,750
Coldwell.....	17	43,350
Albert.....	13	43,150
Edward.....	13	38,770
Eriksdale.....	18	24,000
Ethelbert.....	23	31,740
Glenella.....	16	36,000
Hillsburg.....	11	48,270
LaBroquerie.....	14	33,235
McCreary.....	17	38,765
Piney.....	11	23,900
Woodlea.....	9	26,000
Lawrence.....	16	22,625
STRONG RURAL MUNICIPALITIES		
North Cypress.....	24	\$134,460
Dufferin.....	26	165,000
Hamiota.....	17	179,800
Macdonald.....	30	201,000

the bankruptcy of municipalities of which Stuartburn, Kreuzburg and Chatfield are examples, while other weak rural municipalities are gradually being forced into a dangerous financial position due to the demands for school taxes—demands which are quite reasonable as far as need of education is concerned, but far beyond the financial resources of the individual weak unit. Every one of the municipalities listed in Table 10 under the heading “Weak Municipalities,” is in a serious financial position at the present moment; and one of the contributing factors has been the demands of the school districts for the support of the schools. These demands, although legitimate, could not be met by the municipalities except by their imposing prohibitive tax rates.

The province is gradually being forced to assume an ever-increasing responsibility in this regard, as evidenced by the fact that at the present time 237 school districts employing 324 teachers are being administered by official trustees. Many of these districts operate for eight months only per year. Only eight districts pay their way and operate full time; others are in need of substantial assistance if they are to discharge their duties and obligations to the children.

The whole situation indicates the weakness of the basic method of financing, which does not fairly equalize the burden of taxation for educational purposes. The situation can be briefly stated by pointing out that since 1921 expenditures for education in rural Manitoba have been reduced from \$9,323,619.00 to \$4,417,696.00, or approximately 50 per cent, despite an increase

of 21,000 in the school population, of which more than 7,000 is represented by secondary school pupils requiring a high standard of education. During the same period the city of Winnipeg has reduced expenditures for education from \$3,755,587.00 to \$3,425,070.00, a reduction of approximately eight per cent (8%).

Obviously the greater assessment per teacher has enabled the city to very properly maintain its educational standards.

RESULTS OF THE PRESENT SYSTEM OF FINANCING

The seriousness of the situation in rural Manitoba in regard to education and the effect of the drastic reduction during the period from 1921 to 1936 can best be understood by pointing out the following:

DECLINE IN TEACHERS' SALARIES

The average salary of teachers in one-room rural schools decreased from \$930.00 to \$497.00; the average salary of principals in one-room high schools from \$1,781.00 to \$931.00 per annum; the average salary of principals of two-room high schools from \$2,250.00 to \$1,023.00 per annum; and of all classes of rural school teachers (including high school and elementary) the average salary decreased from \$1,019.00 to \$660.00 per annum, a reduction of over 40 per cent. But during the same period in the city of Winnipeg a firmer and broader tax basis restricted the reduction in average salary. The average salary in the city of Winnipeg had increased to \$1,838.00 in 1931, and the present level of \$1,683.00, while approximately the same as the 1921 level, is considerably below the 1931 peak.

It must be admitted that with living costs and conditions what they are in rural Manitoba the salaries of teachers must be increased if a reasonable standard of teaching efficiency and morale is to be maintained. It may be pointed out that the actual payment of the meagre salaries in many rural districts during the last few years was made possible only by special grants from the provincial government for the payment of salaries—the special aid given for this purpose and for assistance in other ways since 1932 amounting to \$1,024,551.00.

DETERIORATION OF SCHOOL BUILDINGS

The lack of money for repairs and equipment has resulted in definite deterioration in the matter of buildings and equipment. The analysis of reports received from inspectors indicates that at the present time approximately 175 school buildings should be replaced; 350 are in need of major repairs; and 100 school districts need additional accommodation. In at least 50 per cent of all rural schools the equipment for ordinary class-room work is incomplete and insufficient. Outside of Winnipeg there is practically no school district in the province with any equipment making vocational education possible. In the

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same period in which this reduction in school efficiency took place the promissory notes owing by school districts increased from \$887,000.00 in 1921 to \$3,615,154.00 in 1936 and the total debenture debt increased from \$10,483,000.00 in 1921 to \$14,592,000.00 in 1936.

IMPAIRMENT OF NORMAL SCHOOL AND INSPECTORAL SERVICE

Normal school expenditures were decreased from \$81,000.00 in 1921 to \$38,000.00 in 1936, thereby gradually impairing the effectiveness of the teacher training service. The inspectoral service, one of the most important branches, was reduced from \$105,000.00 in 1921 to approximately \$81,000.00 in 1936, despite the fact that the school population increased and the number of teachers rose from 3,708 to 4,426. The enlarging of inspectors' districts, the decreasing of number of inspectors and the imposing of additional duties has made effective supervision impossible.

INABILITY TO MEET INCREASING NEED FOR RURAL VOCATIONAL TRAINING

The modern trend of education is towards the practical and more vocational type. This is particularly true in agricultural provinces such as Manitoba, where if agriculture is to survive it must be reorganized on a more scientific basis. Students must be trained to understand and prefer rural life and to be capable of measuring up to its increasingly exacting demands. The fertile fields of the prairies that yielded abundantly in early years are now less productive and require effective and modern farming methods to produce on an economic basis. There are no longer any assured markets except fiercely competitive markets where only quality products can be sold. Moreover, the drift from rural to urban centres, aggravating and increasing the unemployment problem, can only be successfully attacked in rural Manitoba by providing education which will give the student an opportunity to make himself self-supporting. This involves vocational training in rural high schools, but any such undertaking is not possible under the existing financial set-up.

POSITION OF UNIVERSITY OF MANITOBA

The financial situation as it affects rural and secondary schools has been considered in the foregoing discussion. The position of the University of Manitoba at the present time is one of approximately the same difficulty, due in part to depleted endowments and in part to the economic consequences of the depression. This problem has been in part solved by a series of drastic economies of much the same nature as those made effective in the schools, namely, reduction in salaries and restriction of services. The governmental grants have been decreased from \$501,000 in 1929-30 to \$257,000 in 1937-38. The government recognizes very definitely the difficulties of the University and that these are in effect the same as the difficulties in the rural schools, namely, the lack of sufficient financial support to meet its full responsibility as an educational institution. The government believes that its primary responsibility is for elementary education, but the needs of higher

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education must be considered. The requirements of the University will be set out in detail in a submission to be presented by its Board of Governors.

DECLINE IN AMOUNT OF APPROPRIATION OF DEPARTMENT OF EDUCATION AND IN ASSISTANCE RENDERED BY IT

Table 11, which gives details of departmental expenditures for 1911, 1921, 1931 and 1936, shows that during the period when the local school district revenues received from municipal taxation were declining and the services were being impaired, particularly in rural Manitoba, the government of Manitoba, in order to meet a continuing crisis in its finances, had also to reduce its assistance and services in every branch of provincial educational administration.

TABLE 11.—CLASSIFIED STATEMENT OF DEPARTMENTAL EXPENDITURES FOR EDUCATION IN THE
YEARS 1911, 1921, 1931, 1936

	1911	1921	1931	1936
Office	\$ 20,238.00	\$ 45,007.41	\$ 55,152.92	\$ 40,110.63
Normal Schools	50,092.64	81,247.93	75,984.02	33,214.49
School Inspection	41,921.25	104,824.03	102,437.18	80,341.77
Free Texts	14,074.09	37,308.82	28,017.52	.....
Examinations	16,596.82	35,574.70	57,275.06	36,641.54
Printing and Miscellaneous	3,948.60	40,397.69	27,123.23	16,000.14
University of Manitoba	30,143.85	372,128.00	500,000.00	284,517.91
Agricultural College	74,948.84	422,208.19	.....	.....
School Grants	331,408.91	1,109,882.66	1,408,127.46	1,100,143.20
Vocational Education	6,009.11	24,945.30	38,085.95	16,273.95
Deaf-Blind and Delinquent	53,589.78	180,716.86	134,475.88	84,965.42
Administration in Unorganized Territory .....	.....	.....	17,795.12	23,397.04
Teachers' Retirement Fund .....	.....	.....	.....	14,090.77
Total for Year	\$642,971.89	\$2,454,241.59	\$2,444,474.34	\$1,735,196.86

The general position set out above, as to the basis of educational finances in this province and the results of the system, has been recognized by several commissions and committees that have considered the matter during the last sixteen years. The following are quotations from the findings of those various commissions. The reading of the detailed reports would only serve to emphasize the extent of the seriousness of the problem.

A. From the Report of Education Commission headed by Dr. W. C. Murray, 1924:

Your Commission believes that the burden of school support should be distributed more equitably throughout the rural areas of the Province and that the special grants previously recommended for the weakest districts in weak municipalities should be continued as a special measure of relief for such districts. (*Page 41.*)

Only the Province can, with justice, be held responsible for the provincial duty of keeping open the elementary schools for the children of the Province. The Province may distribute the burden among the local district, the Municipality and the Province, but it should do it equitably. When the district or the Municipality collapses in attempting to discharge its share of the Provincial duty, the Province should effect a readjustment. All admit that there should be equality of opportunity for at least an elementary education, and they must in fairness admit that there should be equality in burden. If inequality of opportunity is unjust, equally unjust is inequality of burden. (*Page 24.*)

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B. From the Report on Administration and Financing of Schools by a Committee of the Manitoba Trustees' Association, 1930:

Amongst other things, the Committee arrived at the following conclusions :

1. The system of financing and administration of schools in this province has not proven adequate to meet the conditions.
2. The principle of equalization of burden and opportunity has not been made practical.
3. A greater degree of financial responsibility should be assumed by the province.
4. The province should seek elsewhere than real property to enlarge the funds at its disposal.

C. From the Report of a similar Committee, reporting at the Convention in February, 1933:

The temporary expedients of school finance introduced as a result of Commission findings have been tried, and have been found to be of but temporary value. It has become abundantly evident that nothing short of an attempt to adjust the machinery of school administration, and of school revenues in a large way, can remedy the inequalities and defects under which the system of public schools in Manitoba is labouring at present.

D. From the Report of a Sub-Committee at this same Enquiry (see C supra).

If some communities are rich enough to support schools of high standard with little effort, while others, even with a great sacrifice in taxation, are still unable to raise enough money to support schools of inferior standard, it is apparent that the school financing machinery is discriminatory. The very wide disparity among communities in the amount of money per child raised for school support through present methods of taxation has made inevitable the existing diversity of standards of educational facilities offered in this province.

The history of financing education in Manitoba indicates a gradual broadening on the basis of school support. Originally the local school district was practically self-supporting. As time passed and increased demands were made for higher educational standards, the basis of support was broadened from the district to the municipality. It would appear to us that this basis of support should be extended from the municipality to the province. It is evident from the statements submitted heretofore that additional funds must be provided for education in rural Manitoba if a reasonable standard of efficiency is to be maintained. It is submitted that the local unit of taxation, the municipality, in many cases cannot increase its obligation in this respect. It is admitted that there should be some equality of opportunity for at least

elementary education. It follows that in all fairness there should be at least an approach to equality of burden and here, as elsewhere, ability to pay should be the criterion of taxation. This being the case, it would seem to us that the province must get itself into a position to assume an increased responsibility for education; a responsibility that will involve equalizing the burden of taxation by the government's assuming a greater proportion of the cost and improving the educational standard in the light of present-day conditions, by providing the additional necessary educational services, particularly for vocational and technical training. The officials of the Department of Education estimate that at least \$1,100,000.00 additional, including \$100,000.00 for vocational and technical training, will be required annually to be supplied by the provincial treasurer for these purposes. This amount is based on the necessary interest charges for capital expenditures plus the amount of increase in grants needed to relieve the weaker areas of the burden they are finding it impossible to carry and to enable rural Manitoba to provide at least a minimum educational standard. Taking into consideration all these facts, it would seem to us that the province itself should be the unit for educational purposes, or for providing at least a minimum of educational services.

BUDGET DEFICIENCY IN PROVISION FOR PUBLIC WORKS AND ROADS AND IN MAINTENANCE THEREOF

The following is a statement of the extent of the inadequacy of the present financial provision for Public Works and Roads and the maintenance thereof in Manitoba, prepared by the officials of the Department of Public Works and Labour.

Owing to the severe economy practised in the Department of Public Works in order to meet the emergency which has continued during the past six years, necessary works and repairs have been cut to an absolute minimum, with results which may briefly be stated as follows:

BUILDING MAINTENANCE

Building maintenance has been confined to those repairs which were absolutely necessary to merely maintain the utility of the buildings and keep them weather-proof. Normal maintenance operations have not been carried on, but only those which the restricted appropriation would allow. It is impossible to continue with the present reduced appropriation without encountering depreciation of capital values and heavy expenditures to restore the same. Already the Department is faced with the problem of unnecessary depreciation and in some instances of positive dilapidation. It is estimated that for repairs alone the estimates of the Department should be increased by not less than \$50,000.00 per annum.

NEW BUILDINGS

The need for new buildings will be dealt with under the Department of Health and Public Welfare.

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ADMINISTRATION OF LABOUR LEGISLATION, ACCIDENT PREVENTION, EMPLOYMENT SERVICE OF CANADA, ETC.

The same condition of excessive economy has prevailed in this branch of the Department of Public Works and Labour.

The Fair Wage Act and the Minimum Wage Act have recently been considerably extended in scope, yet the appropriation which the government has been able to set aside for the purposes of their enforcement does not enable the Department to enforce and administer these acts as efficiently as it could do if adequately financed.

The Department of Labour has also undertaken a limited programme of Accident Prevention in all walks of life. The value of this programme is undoubted, but the scope and efficiency of the Department's activities have been seriously hampered by lack of funds.

At the last session of the legislature a new enactment was passed, entitled the Strikes and Lockouts Prevention Act, the objectives of which are to have industrial disputes reviewed by an independent body prior to a strike or lockout. The value of this legislation has been demonstrated. The cost of administration will have to be provided for.

The National Employment Service Commission has recommended that a National Employment Service be set up, in which recommendation Manitoba partly agrees. If the service is to continue to be operated by the province additional money will be required for such operation, because during recent years the service has been very greatly handicapped by lack of funds.

The additional amount required we put at \$35,000.00 per annum.

MAINTENANCE OF HIGHWAYS

The importance of highway transportation is fully recognized as being one of the outstanding questions requiring solution in the province. The increase in automobile traffic, the movement of goods by trucks on highways, and the rapid improvement of motor vehicles, make it almost impossible to keep highway construction abreast of transportation needs even in countries where a considerable amount of money is available for this work. Where highways are not continually improved they fall behind the requirements of traffic. In this province, owing to curtailment of funds available for highway work, our highways not only have not been improved but have actually deteriorated.

Road maintenance conducted by the Department of Public Works comes under the following classifications:

- (1) Provincial trunk highways, which are entirely the responsibility of the provincial government.

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- (2) Main highways, which are the responsibility in most cases of the municipalities but on which the government assists to the extent of two-thirds of the cost of maintenance.
- (3) Certain highways, such as the Trans-Canada Highway from White-mouth to the Ontario boundary and the highway into Clear Lake National Park, which have been maintained 100 per cent by the province.
- (4) Roads under a sub-department of the Public Works, known as the Reclamation Branch, through an appropriation known as Aids to Municipalities in Unorganized Territories:
 - (a) Road building and maintenance in more sparsely settled parts of the province.
 - (b) Drainage works.
 - (c) Grants to municipalities.
- (5) Roads in mining areas, which are paid entirely by the province.

Since the fiscal year ending April 30, 1931, the following expenditures have been incurred:

<i>Year</i>	<i>Maintenance of Good Roads</i>	<i>Aids to Municipalities</i>	<i>Roads in Mining Areas</i>
1931.....	\$966,073.41	\$429,996.95	.....
1932.....	756,308.79	297,867.68	.....
1933.....	668,686.74	149,234.25	.....
1934.....	480,551.16	110,853.22	.....
1935.....	489,516.15	102,498.54	.....
1936.....	533,796.64	149,901.79	\$24,997.55
1937.....	484,607.02	139,316.31	12,974.36

When the provincial trunk highways were taken over by the province, a large part of these were nothing more than municipal roads. From 1925 to 1930 the province was gradually improving these roads to bring them up to modern standard. However, there still remains a considerable mileage of roads that are unable to meet the requirements of modern traffic. The small amount of money provided for maintenance of highways since 1930 has not permitted of any improvements on any of our trunk highways (other than work carried out under unemployment relief) and has not even provided sufficient moneys for proper maintenance of the highways. The Department has not been able to supply sufficient gravel to replace gravel worn off by the traffic, with the consequence that in many places the highways are reverting to mud roads. Cutting of weeds and brush on highways has been neglected in some instances. The surface of the road has worn down below prairie level in quite a number of cases, necessitating greatly increased cost of snow removal. Each year sees additional requests for highways to be kept clear of snow throughout the winter. To do this economically requires the rebuilding of a large mileage of our highways, the providing of additional snow fence, and the purchase of considerably more snow-plowing equipment.

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A considerable amount of money is spent each year on the Tourist and Convention Bureau to endeavour to bring tourists to the Province of Manitoba. In order to make the tourist business a success in this province, considerable improvements will be required on our highways in the way of widening, easing of curves, giving better vision, providing dustless and easy-riding surfaces. The tourist trade depends to a large extent on persons from the United States. Owing to the large mileage of good highways in the States, they will not be attracted to this country unless our highways are considerably improved. Our present trunk highway system consists of 1,670.89 miles. There is a continual demand being made for an increase in this mileage of provincial trunk highways.

NORMAL BUDGET FOR MAINTENANCE OF ROADS

Below is presented a normal budget for the maintenance of roads. This budget will not provide for increase in our present mileage of maintained roads. It will make no allowance for traffic increases, nor allowance for badly needed betterments. It will provide merely an efficient maintenance of the mileage which the Department now maintains inadequately by reason of the present severely reduced estimates:

Provincial Trunk Highways and Main Highways.....	\$1,300,000.00
Aids to Municipalities in More Sparsely Settled Districts in Unorganized Territory, and Roads in Mining Areas.....	400,000.00
Total.....	\$1,700,000.00

This amount, however, is considerably below the amount required to bring our highways up to the standard required by modern traffic conditions.

It will be observed from the foregoing that the increases required in the Department of Public Works and Labour, over and above the actual expenditures for the fiscal year ending April 30, 1937, are for:

Building Maintenance.....	\$ 50,000.00
Administration of Labour Legislation, Accident Prevention, etc.....	35,000.00
Provincial Trunk Highways and Main Highways Maintenance.....	815,000.00
Aids to Municipalities.....	261,000.00
Total.....	\$1,161,000.00

BUDGET DEFICIENCY IN PROVISION FOR HEALTH AND PUBLIC WELFARE

The following is a statement of the extent of the inadequacy of the present financial provision for Health and Public Welfare in Manitoba, prepared by the officials of the Department of Health and Public Welfare.

With the increase in the cost of living and the increase in the number of persons in the province seeking social assistance of various kinds, it is impos-

sible with the present appropriation to carry on the already established social services of the Department of Health and Public Welfare. These services include:

1. Mothers' Allowance
2. Assistance to Indigent Persons in Unorganized Territory
3. Care of Persons Suffering from Mental Disease
4. Mental Defectives
5. Grants to Hospitals
6. Care of the Aged and Infirm

Some of the present and future requirements for the various services are as follows:

1. **CHILD WELFARE.**—An increase of \$10,000.00 to care for increased numbers on allowance. If it became advisable to increase the schedule of allowances to take care of the increasing cost of living, another \$50,000.00 would be required.

2. **SOCIAL ASSISTANCE IN UNORGANIZED TERRITORY.**—There is a steady increase in the number of persons requiring assistance in unorganized territory, due to the weeding out of "unemployable persons" from those in receipt of "unemployment relief." There is also an increase in the cost of this service to the individual, due to the rise in the cost of living. The appropriation for the year ending April 30, 1938, for this service is \$65,000.00. At the present rate of increase our requirements for the year ending April 30, 1939, will be \$70,000.00; at a similar rate of increase they will be over \$100,000.00 by 1947.

3. **MENTAL DISEASE.**—There has been a steady rise since 1911 of the number of cases of mental disease being cared for and the estimated increase for the next ten years. This presents the following financial problems:

- (a) Capital expenditure for new buildings.
- (b) Increased yearly expenditure for maintenance of patients, due to increase in numbers, and increase in the cost of food and other supplies.

Increased accommodation for at least 250 patients is urgently required at the present time. The two hospitals, the Brandon Hospital for Mental Diseases and the Selkirk Hospital for Mental Diseases, with a normal capacity of 1,250 and 650, respectively, now house 1,450 and 850 persons. Within the next five or six years we will require at least \$500,000.00 for new buildings at these institutions.

For maintenance, an increased appropriation of \$35,000.00 for Brandon and \$12,000.00 for Selkirk will be needed in our next estimates. For every added patient cared for an extra \$300.00 per year will be required.

In the Psychopathic Hospital accommodation can be made for 35 patients, but, due to curtailment of funds, only 25 to 30 beds are now being used. On the present basis of cost, an additional sum of \$10,000.00 is required to increase the accommodation to 35. This is urgently required. Providing increased

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accommodation is secured and at the present rate of increase of mental cases, we will require for the year ending April 30, 1947, a total amount of over \$1,000,000.00 to operate our three institutions for care of mental diseases, one situated at Brandon, one at Selkirk, and one at Winnipeg, as compared to our appropriation of \$600,537.00 for the year ending April 30, 1938.

4. MENTAL DEFECTIVES.—Our present accommodation for mental defectives is adequate for 300 inmates. Into these quarters we have crowded 410 patients. We have on file 170 applications for admission to the institution, and these are all urgent cases. There are at least 200 more known cases which require institutional care. This necessitates an immediate capital expenditure of \$300,000.00 to provide accommodation of at least 250 beds, in addition to the \$65,000.00 addition to the Portage la Prairie institution now under construction.

The forty beds now being provided by this addition, which will be ready by next spring, and the increase in the cost of food, will mean an increase in the present appropriation for maintenance of \$25,000.00. As additional accommodation is secured, a further increase of \$300.00 per patient for maintenance will have to be provided. If we obtain the accommodation required, we will need an appropriation of \$215,000.00 for the care of mental defectives for the year ending April 30, 1947. The appropriation for the year ending April 30, 1938, is \$130,474.00.

Besides the capital expenditure for patient accommodation at our mental institutions, additional expenditures for farm buildings are also urgently required, as follows:

Brandon—cow barn and piggery.....	\$10,000.00
Selkirk—cow barn, ice house and two root houses.....	15,000.00
Portage la Prairie—horse barn, piggery and root house.....	10,000.00
Total.....	\$35,000.00

5. GRANTS TO HOSPITALS.—In 1933, due to the rapidly increasing appropriation required for per capita grants to hospitals, the Hospital Aid Act was redrafted and the per diem grant of 50c was reduced to 40c for all ordinary public ward patients. Regardless of this and the fact that the government had established a division of hospitalization under this Department, the requirements for this social service have increased from \$343,000.00 for the year ending April 30, 1933, to \$403,000.00 for the year ending April 30, 1938; while hospitalization of indigents in unorganized territory, which cost the Department \$94,000.00 for the year ending April 30, 1933, has increased to \$105,000.00 for the year ending April 30, 1938. Returns from hospitals throughout the province indicate that most of these institutions show a yearly deficit, which has to be made up by public or other contributions. At the present rate of increase these two services will require by 1947 appropriations of \$500,000.00 and \$125,000.00, respectively.

6. CARE OF THE AGED AND INFIRM PERSONS.—With the advent of the depression many persons found it increasingly difficult to care for and maintain their aged and infirm relatives. As a result, assistance was sought from the municipality and usually obtained. The Department has always made a contribution to municipalities for this service rendered to their residents (the maximum monthly assistance in any case being \$7.50), and as a result our expenditure for this service also has increased from \$43,000.00 in 1933 to over \$50,000.00 for the year ending April 30, 1938. At the present rate of increase we estimate our requirements for 1947 will be well over \$60,000.00.

7. DISEASE PREVENTION.—The officers of this Department are convinced that we immediately require an increased appropriation for disease prevention, in order that preventive services may be carried to our people, particularly those who live in rural areas. Since the depression most people have found it next to impossible to obtain the medical services which they require, and as a result we are convinced there has not been the improvement in the general health of our people which should be expected in view of the increased knowledge at our disposal regarding disease prevention. To carry this service to the people in our province, particularly farm dwellers, it is necessary that we have a province-wide distribution of properly trained public health personnel; this to include medical officers of health, public health nurses and sanitary inspectors. The requirements are education and assistance in the homes; these can only be accomplished by an increased appropriation for personnel.

We know the question will be raised as to whether or not such a service will be of any real value, not only to the individual, but to the state, and to the latter particularly in reference to limiting to the minimum the financial requirements for the care of mental and physical disability. There are many examples of what we may expect to accomplish, and the most outstanding is that which already has been accomplished in Canada in reference to venereal disease. In 1916 the war gave us definite information as to the high prevalence of venereal disease amongst our population. As a result of this data the federal government made grants to the provinces in order that greater efforts might be made in the cure and eradication of syphilis and gonorrhoea. Subsequent to the increased expenditure on the part of the federal and provincial governments for this service, we find that the positive Wassermann tests amongst inmates in general hospitals decreased from 10.4 in 1916 to 1.7 in 1935 (records, Toronto General Hospital). Although the federal government discontinued this grant in 1932, the provinces continued the services, and there has continued a steady decrease in the number of cases of syphilis and gonorrhoea seeking treatment. In 1933 there were in Canada 340,892 treatments given for syphilis and 407,394 treatments given for gonorrhoea. By 1935 the treatments required were reduced to 321,704 for syphilis and 389,962 for gonorrhoea. If anything, we believe the reporting of these cases is more accurate now than it was even three years ago, which would tend to prove the figures all the more indicative of the value of increased expenditures for

APPENDIX A—STATEMENT OF REVENUE FROM TAXATION CREDITED TO CURRENT REVENUE ACCOUNT IN THE FISCAL YEARS FROM 1906 TO 1937 AS PER THE PUBLIC ACCOUNTS OF THE PROVINCE AND THE STATUTORY AUTHORITIES

Year	Supplementary Revenue Levy by Municipal Commissioner (1)	Auto License (2)	Succession Duties (3)	Amusement Tax (4)	Unoccupied Land Tax Levy by Municipal Commissioner (5)	Gasoline Tax (6)	Income Tax (7)	Grain Futures Tax (8)	Special Income Tax on Corporations (9)	Special Income Tax (Wage Tax) (10)	Corporation Tax including Railway (11)	Public Utilities Levy by Municipal Commissioner (12)	Old Age Pensions Levy by Municipal Commissioner (13)	Soldiers' Taxation Relief Levy by Municipal Commissioner (14)	Provincial Board of Health Levy by Municipal Commissioner (15)	Hospitalization Board of Health Levy by Municipal Commissioner (16)	Total Taxes (17)	Year
1906			\$ 75,310.15															
1907			18,190.44															
1908		\$ 1,900.00	28,874.54								\$ 188,097.68						\$ 820,006.83	1908
1909		3,600.00	27,084.22								189,655.54						\$ 850,897.63	1909
1910		5,100.00	27,427.22								200,400.54						\$ 874,449.88	1910
1911		14,400.00	165,900.00								239,011.68						\$ 777,907.66	1911
1912		20,000.00	165,900.00								237,754.31						\$ 782,444.59	1912
1913		20,000.00	288,089.32								261,779.18						\$ 418,084.54	1913
1914		30,000.00	285,430.25								268,771.83						\$ 586,685.65	1914
1915		30,000.00	285,430.25								381,945.40						\$ 681,780.43	1915
1916		30,000.00	411,609.41	\$ 11,088.13							417,160.53						\$ 986,485.16	1916
1917		110,950.45	250,710.44	15,267.81							514,820.39						\$ 920,416.15	1917
1918		177,875.39	308,422.65	96,792.00							617,160.53						\$ 1,086,971.11	1918
1919	\$ 626,000.00	326,514.73	197,059.49	184,984.19	\$137,550.90						\$ 950,810.55	\$ 54,166.67					\$ 1,919,024.44	1919
1920	1,055,750.94	379,067.51	197,059.49	184,984.19	\$137,550.90						\$ 1,151,050.50	\$ 72,616.07					\$ 2,777,192.99	1920
1921	1,350,141.60	400,058.00	479,811.93	538,772.12	114,635.75						\$ 1,051,000.00	\$ 88,853.33					\$ 3,568,981.54	1921
1922	1,510,162.05	550,075.45	479,180.39	559,480.00	885,410.00						\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1922
1923	1,146,576.84	445,353.97	168,259.09	199,456.40	109,748.84						\$ 1,111,858.16	\$ 248,000.00					\$ 3,568,981.54	1923
1924	1,416,515.36	620,375.17	220,830.00	272,254.08	928,816.08	\$ 25,960.41					\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1924
1925	1,391,347.53	784,015.03	458,802.00	528,224.08	928,816.08	\$ 25,960.41					\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1925
1926	1,486,175.52	415,070.87	589,027.00	135,689.88	30,000.00	106,871.18	\$ 35,272.45				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1926
1927	1,525,854.53	607,409.49	492,192.18	355,169.18	36,667.73	453,281.36	545,510.56				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1927
1928	1,160,834.07	758,882.76	757,468.00	469,602.70	23,678.79	445,545.37	478,445.04				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1928
1929	890,193.48	805,881.89	605,475.34	378,055.07	21,009.57	501,864.91	441,108.38				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1929
1930	890,193.48	805,881.89	605,475.34	378,055.07	21,009.57	501,864.91	441,108.38				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1930
1931	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1931
1932	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1932
1933	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1933
1934	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1934
1935	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1935
1936	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1936
1937	1,092,383.51	1,062,511.61	1,023,663.70	533,415.16	14,132.46	810,929.88	622,829.08				\$ 1,111,858.16	\$ 248,000.00					\$ 4,101,001.10	1937

*11-month period.

19-month period.

19-month period.

Figures from 1918 to 1933 on revenue earned bank.

(c) Averages of previous years.

(1) SUPPLEMENTARY REVENUE LEVY

- 1916—cap. 65. Supplementary Revenue Act:
This was a tax of one mill on the dollar levied by the Municipal Commissioner, on all municipalities and all assessable property in school districts in unorganized territory.
- 1919—cap. 108—increased to 1½ mills.
- 1920—cap. 108—increased to 2 mills.
- 1927—cap. 68—decreased to 1½ mills for 1927.
For 1928 and following years, levy of 2 mills to be reduced by ratio of 90% of surplus of preceding year to \$1,550,000.
- 1929—cap. 64—reduced to 1 mill.
- 1930—cap. 59—Act repealed.
- (2) AUTOMOBILE LICENSES
1906—cap. 34 Motor Vehicle Act:
Flat rate of 60¢ per auto.
1916—cap. 41 Tax increased to \$10 per auto.
1921—cap. 43 Basis of taxation changed:
40 H.P. or less, \$10.
Over 40 H.P., \$18 plus 50¢ per H.P. over 40.
1923—cap. 38 Basis of taxation:
Auto, \$10 to \$35, depending on wheel base.
Trucks, \$10 to \$35, depending on wheel base.
1925—cap. 36 Auto, \$10 to \$35, depending on carrying capacity.
Trucks, \$10 to \$35, depending on carrying capacity.
1930—cap. 10 Highway Taxation Act:
Auto, \$2 and up, depending on wheel base.
Trucks, \$10 and up, depending on carrying capacity.

(3) SUCCESSION DUTIES

- 1903—cap. 21 Succession Duties Act:
1913—cap. 107 H.S.M. Rates from 3½% to 15%.
1924—cap. 107 Rates from 40% to 95%.
1926—cap. 38 Rates revised—30% to 15%.
1930—cap. 49 Succession Duties Act:
15% surtax added. This surtax has produced the following income:
1928, \$20,000.00; 1929, \$30,787.17; 1930, \$42,423.43; 1931, \$40,485.50; 1932, \$39,639.16.
1934—cap. 62 New basis of taxation rates from 30% to 65% plus 15% surtax.

(4) AMUSEMENT TAX

- 1916—cap. 84 Theatre Tax Act:
Tax of 10¢ per seat.
1916—cap. 100 Prince Amusement Act:
Tax of 50¢ per seat in Winnipeg; tax of 10¢ per seat elsewhere.
- 1918—cap. 1 Amusement Taxation Act:
Tax of 10¢ per seat based on price of admission to any place of amusement.
New Act:
Change in schedule of theatre taxes.
New law imposed of 50¢ on post-matinee betting.
1924—cap. 3 C.A. Act amended.
1926—cap. 2 Per-matinee tax increased to 5%.
1927—cap. 1 No tax on amusement and under.
1932—cap. 49 Special Revenue Act:
Change in schedule—4¢ to 10%.

(5) UNOCCUPIED LAND TAX

- 1918—cap. 70 The UNOCCUPIED LANDS Tax Act:
Taxation of 1½% on assessed value—levied through Municipal Commissioner.
- 1921—cap. 169 C.A. Amended:
1924—cap. 64 Tax is now to form part of the general revenue of the municipalities.
- (6) GASOLINE TAX
1923—cap. 14 The GASOLINE Tax Act:
1925—cap. 54 Tax of 1¢ per gallon purchased.
1926—cap. 102 Tax increased to 3¢ per gallon.
1927—cap. 102 Tax increased to 5¢ per gallon.
1930—cap. 40 Special Revenue Act:
Tax increased to 2¢ per gallon.
- (7) INCOME TAX
1923—cap. 19 INCOME Tax Act:
1927—cap. 20 Tax on income at varying rates from 1½% to 9%.
Tax for 1928 and following years to be reduced by ratio of 90% of surplus of preceding year to \$500,000.
1930—cap. 22 Above provisions repealed:
Some corporations widened to include corporations (see heading (9)).
1931—cap. 25 Exemption increased but rates increased, varying from 2½% to 9%, less 90%.
1932—cap. 29 Special Revenue Act:
Exemptions decreased:
90% reduction cancelled.
Additional surtax of 5% on incomes over \$5,000.
All rates on incomes over \$1,000 increased by 1%.
1937—cap. 49 Income Taxation Act—new Act in force January 1, 1938.

(8) GAIN FUTURES TAX

- 1923—cap. 17 GAIN FUTURES TAXATION Act:
Act repealed.
The tax collected under this Act was paid back, as the Act declared ultra vires by the Privy Council (1925 A.C. 661).
1937—cap. 51 OREGONIST STATUTE REPEAL ACT, 1937:
Act repealed.

(9) INCOME TAX ON CORPORATIONS (see also Corporation Taxation heading (11))

- 1923—cap. 28 THE INCOME Tax Act:
Income Tax widened to impose a tax of 8% on income of corporations, except \$1,000.
1929—cap. 40 Special Revenue Act:
Tax on corporations increased to 5% of income, with no exemption.
(10) SPECIAL TAX ON WAGES
1929—cap. 44 SPECIAL TAXATION Act:
A tax of 8% imposed on all income, where it exceeds \$100 for a married person and \$400 for an unmarried person.
1937—cap. 43 EXEMPT INCOME increased to \$1,000 for married person.
The Income Taxation Act:
Consolidation of two income tax acts.
Exemption to unmarried person where income does not exceed \$500.

(11) CORPORATION TAXATION, INCLUDING RAILWAYS

- 1900—cap. 55 THE CORPORATION TAXATION Act:
Provides for a tax on various classes of companies, e.g.:
Head office of bank, \$500.
Branch bank, \$100.
Insurance company, 1½% of gross premiums.
Trust and Loan companies, \$100 up, depending on capital.
- 1913—cap. 191 R.S.M. Taxes increased.
- 1924—cap. 181 C.A. Taxes increased, e.g.:
Head office of bank, \$2,400.
Branch bank, \$500.
Insurance company, 8% of gross premiums.
1929—cap. 49 SPECIAL REVENUE Act:
Taxes increased, e.g.:
Head office of bank, \$5,000.
Branch bank, \$1,000.
Private bank, \$750.
Insurance company, 8% of gross premiums.
1930—cap. 67 THE RAILWAY TAXATION Act:
8% gross earnings tax for 1930, 1931 and 1932; not to exceed 5%.
1931—cap. 166 R.S.M. Gross earnings in Manitoba to be taxed; not to exceed 5%.
1913—cap. 193 R.S.M. Gross earnings in province to be taxed; not to exceed 5%.
1924—cap. 188 C.A. For 1924 tax not to exceed 5% of gross earnings.
1931—cap. 48 Provincial Treasurer authorized to make advance payments with railway companies being the annual tax to be payable.
- (12) PUBLIC WELFARE ACT
1909—cap. 68 MORTUARY ALLOWANCES Act, 1910:
Municipal Commissioner authorized to levy a tax upon the municipalities for such portion of the money needed to pay mortuary allowances "as may be just."
1924—cap. 39 C.A. The Civil Welfare Act:
Provision for same levy.
1926—cap. 6 The Civil Welfare Act:
Provision for same levy. (No levy made since 1926).
- (13) OLD AGE PENSIONS
1928—cap. 44 Old Age Pensions Act:
Municipal Commissioner to levy for necessary funds.
1932—cap. 33 Levy to be reduced if Dominion pays more.
- (14) SOLDIERS' TAXATION RELIEF
1923—cap. 20 THE SOLDIERS' TAXATION RELIEF Act:
Municipal Commissioner to levy for any payments made by Provincial Treasurer to municipalities.
1933—cap. 38 LITIGIOUS LEVY Act:
Provision for same levy.
- (15) PROVINCIAL BOARD OF HEALTH
1911—cap. 44 THE PUBLIC HEALTH Act:
Power to levy on municipalities.
1924—cap. 169 C.A. Amended.
1928—cap. 47 New Department formed.
- (16) LEVY FOR HOSPITALIZATION IN UNORGANIZED TERRITORY
1933—cap. 16 THE BONTIA Act:
Power to levy on municipalities.

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preventive measures. The result of this work as it affects admission to institutions for the care of mentally diseased persons is apparent in the figures for Manitoba, as compared to those of the U.S.A., where no such programme has been in effect:

Manitoba—5.9 per cent of all admissions had syphilis.

U.S.A.—Over 10 per cent of all admissions had syphilis. (Thomas Parron, Surgeon General, U.S.A. Public Health Service.)

Smallpox, diphtheria and typhoid fever are rapidly becoming disappearing diseases, due also to the increased use of the preventive measures available, and we feel sure that an increased expenditure of \$100,000.00 under the Division of Disease Prevention, for the services suggested above, would further improve and maintain the health of our people, and thus ultimately reduce to a minimum the now uncontrollable expenditures for hospitalization, care of aged and infirm persons, and maintenance of persons suffering from mental disease and mental defect.

Summarizing the above statement, the following increases in expenditures over the actual expenditures for the fiscal year ending April 30, 1937, will have to be provided in our next estimates for the fiscal year ending April 30, 1939:

Child Welfare.....	\$ 10,000
Destitution in Unorganized Territory.....	20,000
Mental Hospitals:	
Brandon.....	39,000
Selkirk.....	33,000
Winnipeg.....	7,500
School for Mental Defectives at Portage la Prairie.....	43,000
Grants to Hospitals.....	10,000
Care of Aged and Infirm.....	20,000
Disease Prevention.....	100,000
Total.....	\$282,500

MANITOBANS AS CANADIANS ENTITLED TO RECEIVE THEIR SHARE OF NATIONAL MINIMUM STANDARD OF RELIEF WITHOUT WRECKING FINANCES OF PROVINCE AND MUNICIPALITIES IN ORDER TO PROVIDE SUCH A STANDARD

We believe that there should be a reasonable minimum standard of education, public welfare, relief and other social benefits provided for Canadians in all parts of Canada. We submit that the conditions which we have just described indicate that at the present time in many respects that minimum standard is either not being attained in Manitoba or is in jeopardy if the province's financial position is not improved. Not only are we unable to provide out of provincial revenue a proper minimum standard under all of the headings that we have mentioned, but the fact is, as the Bank of Canada report indicates, that during the years of depression the province has been able to meet debt charges and, at the same time, provide the services which

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it has rendered to its citizens, only because it has received aid from the Dominion government on a large scale. This aid consisted of direct loans, Dominion guarantees and Dominion share of Manitoba relief and reached an estimated total as at March 31, 1937, of \$51,750,588.00. This amount of money was granted, lent or guaranteed by the Dominion when it would have been impossible to secure it through the ordinary commercial channels. In other words, if the Dominion government had not granted, lent or guaranteed this money to the Province of Manitoba, the province would have been forced to default.

From the foregoing explanation of the trend of provincial finances in western Canada generally, and in Manitoba in particular, it is obvious that a continuance of the present policy means that those provinces in which the need for social assistance is greatest are, largely as the result of the conditions that created the need, the least able to provide such assistance. The fact that not only Manitoba, but also Saskatchewan, Alberta and British Columbia, have had to go millions of dollars into the debt of the Dominion government as the only source whence they could secure money for relief is conclusive proof of this.

The Honourable Charles A. Dunning, in his Budget Speech, on February 25, 1937, reported that as at February 15, 1937, the western provinces owed the Dominion the following sums for relief advances only:

Manitoba	\$ 19,415,856
Saskatchewan	51,898,717
Alberta	25,759,748
British Columbia	30,345,079
Total	\$127,419,400

THE INSUPERABLE DISADVANTAGE OF FINANCIAL PLAN OF CONFEDERATION IS THAT IT WILL NOT WORK

The natural economic disabilities which affect citizens of this province, to say nothing of the economic disabilities under which they suffer as the result of certain branches of Dominion government policy, do not disentitle them to a national minimum standard of social benefits. This they are not now receiving in proper measure. We are faced here with the condition in which at least three of the provinces of Canada find themselves insolvent. For some years past they have not been paying current expenditure, including relief, which is by any proper test a current expenditure. They have not been able to borrow for relief purposes, or more realistically and accurately stated, they have not been able to fund their deficits in the money markets. If the Dominion government had not lent the money with which to meet their current expenditures, including relief, they would have long since gone into default. Whatever, therefore, may be the theoretical disadvantages or advantages of the financial plan of Confederation, it has an insuperable practical disadvantage in that it will not work. It has not worked in any of the three prairie provinces for at least five years.

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The Honourable Charles Dunning, commenting on this situation, said in the House of Commons:

May I point out that if we continue along the road we have been travelling we shall soon reach the point at which, in connection with several of the provinces, the Dominion will be the principal creditor. Indeed, continuing at the rate at which we have been accumulating obligations of this kind, we may be sure that we have not far to go until we reach the stage where the Dominion might be the majority creditor of a province. Is that a desirable condition into which to drift? We have only to continue drifting along the lines followed in the past five years to reach that situation within a measurable time.*

Not only has the financial plan of Confederation not worked, but there is no indication that it will work for all provinces, even with the return of such normalcy as we can legitimately expect.

To prevent the western provinces and municipalities being forced into default, Canada must provide an alternative plan which will work; or be prepared to face the inevitable consequences of such default to the business and financial world and to the credit of all Canada.

ADVANTAGES TO INDUSTRIAL PROVINCES UNDER CONFEDERATION

We have set out the position of the Manitoba treasury after 67 years of Confederation. We have seen that the Dominion-provincial plan of Confederation was unsound from the beginning and that this has contributed in large measure to the treasury problems of Manitoba. But since the question might be raised as to why Ontario and Quebec have been able to prosper under this same plan and other provinces have not been able to pay their way, it is pertinent to quote the Honourable Mr. Rogers, writing in *The Canadian Forum*, December, 1934, under the title "One Path of Reform," as follows:

The tendency of the tariff system of Canada has been to concentrate manufacturing activity in the provinces of Ontario and Quebec, whereas the burden of maintaining the protective tariff has been distributed throughout all the provinces and falls with particular weight upon those provinces whose income is derived chiefly from primary production and export markets. The abnormal concentration of manufacturing activity in the central provinces has had important effects upon the productivity of income taxes and corporation taxes in the various provinces. It has increased to a marked degree the number of companies subject to direct corporation taxation in the provinces of Ontario and Quebec. It has also contributed materially to the larger corporation and individual incomes of these provinces. It is not too much to say that the protective system has fertilized the income tax field in Ontario and Quebec by a process which has resulted in the partial impoverishment of this field of taxation in other provinces whose economic development has been prejudiced by the effects of the fiscal policy of the Dominion.

As an example of this let us compare the various income groups paying Dominion income tax in Manitoba and Ontario, respectively, in 1935-1936. (See Table 12.)

*Hansard, Volume III, Session 1936, p. 2855.

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TABLE 12

THE NUMBER OF INDIVIDUAL TAXPAYERS AND AMOUNT PAID UNDER THE INCOME WAR TAX ACT, CLASSIFIED ACCORDING TO INCOME CLASS GROUPS IN MANITOBA AND IN ONTARIO, 1935-1936

Income Class (In Dollars)	Manitoba		Ontario	
	No.	Amount	No.	Amount
Under- 2,000	6,155	\$ 61,532.19	40,408	\$ 450,417.83
2,000- 3,000	2,809	55,035.52	21,963	485,481.09
3,000- 4,000	1,586	61,826.91	12,507	534,560.64
4,000- 5,000	797	61,638.45	5,901	492,597.38
5,000- 6,000	400	55,235.35	3,152	459,597.48
6,000- 7,000	280	58,732.94	1,986	447,126.56
7,000- 8,000	214	62,295.85	1,294	397,177.95
8,000- 9,000	112	42,474.53	875	387,581.08
9,000-10,000	78	36,700.07	642	341,990.73
10,000-15,000	188	163,141.70	1,594	1,439,139.43
15,000-20,000	52	79,743.88	661	1,173,888.96
20,000-25,000	35	78,919.99	338	1,029,644.21
25,000-30,000	16	64,548.10	179	762,882.64
30,000-35,000	8	49,039.08	123	758,702.13
35,000-40,000	7	52,481.51	65	512,315.67
40,000-45,000	5	59,783.10	56	515,309.99
45,000-50,000			36	401,622.51
50,000 and over			152	6,216,354.46
Total	12,742	\$1,043,179.17	91,932	\$16,806,390.74

As another example we may cite the case of one of the largest mercantile corporations in Manitoba. This corporation, although having its head office in Ontario, has millions of dollars invested in Manitoba, upon which large sums are earned as interest and profits. Yet very little personal income tax accrues to Manitoba from these earnings, and a careful search made in our succession duties office fails to reveal a single cent of succession duties having been paid in Manitoba in respect of stock held in this company. This statement will explain in part why, for the fiscal year ended April 30, 1936, Manitoba succession duties collections were \$375,044.60, whereas those of Ontario were \$11,984,720.55.

MANITOBA'S TAXATION IN RELATION TO INCOME

Dominion tariff policy, Dominion monetary policy, certain inherent disabilities elaborated elsewhere in this brief, the crop failures and low prices of recent years, all have so reduced the income of Manitoba's citizens, while simultaneously creating demands upon the provincial treasury, that, in spite of the most rigid economy in the general expenses of government, the percentage of income collected in provincial and municipal taxes in Manitoba had come to be the highest in Canada in 1933. Yet this was in spite of the fact that Manitoba's per capita municipal and provincial tax receipts actually decreased from \$34.66 in 1926 to \$33.55 in 1933, although they increased in all other provinces except Alberta and Saskatchewan.

Similarly, although the net public debt of the province only increased by a smaller proportion in Manitoba between 1926 and 1935 than in any other province of Canada *on a per capita basis* in this same period, this same debt,

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as a percentage of income, showed a rate of increase just about equal to the average for Canada. Manitoba's aggregate municipal and provincial public debt, as a percentage of income, was second highest in Canada in 1933.

Manitoba's debt and taxation problem can be stated, therefore, in either of two ways. It can be said, as in Part V, that the burden of debt and taxation in Manitoba is high in relation to income; or the relationship can be stated in an equally correct and perhaps less misleading way by saying that since public debt and taxes both arise in respect of services rendered to individuals by the government, the extent of those services, as measured by either per capita debt or per capita taxation, being approximately equal to the average of all provinces, is not at all out of line in Manitoba as compared with other provinces. In fact, having regard to a variety of provincial problems and disabilities not arising from its own policies which are elaborated elsewhere in this brief, it is a modest provision. The gist of the problem is the income of Manitoba's citizens, which is low in relation to public debt and taxation. The lowness of provincial income is caused by the disabilities which we have just referred to but the precise effects of which, although undoubtedly oppressive, are difficult to isolate and measure; and by Dominion monetary and tariff policies, the effects of which we have measured in Parts III and IV of this brief.

MAIN CAUSES OF MANITOBA'S TREASURY PROBLEM

The main causes of Manitoba's treasury problem, therefore, are:

1. The fact that the nation and its provinces are trying to work under a Constitution and a financial plan which is part of it, both of which were conceived upon the basis of a social philosophy quite different from that under which governments have to meet the demands of today.

2. The fact that the financial plan of Confederation and its amendments from time to time erroneously assumed that increases in the expenditures of provincial government would be proportionate to population; that the economic advantages of all the provinces under Confederation would be approximately in proportion to population and that, therefore, the provinces could be adequately and justly subsidized by equal payments, in proportion to population.

3. The fact that the judicial interpretation of that Constitution and that plan has cast the responsibility of fulfilling the new demands for social service and relief upon the limited tax base and variable and varied taxable capacity of the provinces, whereas the economic fact is that such responsibility can only be sustained by the unlimited tax base, and the more uniform taxable capacity of the whole nation.

4. The fact that the adverse effects of certain Dominion policies and of other disabilities have been to lower Manitoba's provincial income to the point at which it will not sustain a reasonable per capita burden of public debt and taxation.

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5. The fact that due to the adverse effects of Dominion policies and other disabilities, and to its attempt to discharge responsibilities quite beyond its financial capacity, Manitoba has accumulated a capital debt, the charges upon which absorb almost 50 per cent of its budget on current account.

The problem, as distinct from its causes, is clearly that of restoring balance to the budget on current account of the province of Manitoba.

It is scarcely necessary to say in reply to those who point out that this budget has shown a surplus during the past three years, that this condition of apparent balance leaves out of account:

1. Net capital borrowings for relief which, for the period between April 30, 1930, and April 30, 1937, amounted to \$23,736,570.51; and which for the last fiscal year ended April 30, 1937, were over four million dollars.

2. Deficiencies in the appropriations for:

- a. road and building maintenance;
- b. the care and housing of the insane and mental defectives and other public welfare charges;
- c. educational grants.

All of these deficiencies are false economies. Some of them will eventually and inevitably involve the province in the expenditure of larger sums of money than a prudent present provision would entail.

As shown by the departmental statements of budget deficiencies hereinbefore set out, the increases over the actual expenditures for the year ending April 30, 1937, immediately required in this connection are as follows:

DEPARTMENT OF PUBLIC WORKS AND LABOUR

Road maintenance.....	\$ 815,000.00
Aids to municipalities, mining roads, unorganized territory, etc.	261,000.00
Labour law enforcement.....	35,000.00
Building maintenance.....	50,000.00
	<hr/>
	\$1,161,000.00

DEPARTMENT OF HEALTH AND PUBLIC WELFARE

Increases as stated in summary of departmental statements, totalling..... 282,500.00

DEPARTMENT OF EDUCATION

General increase in grant required to raise standard of education throughout the province to a desirable minimum.....	\$1,000,000.00
Technical education.....	100,000.00
	<hr/>
	1,100,000.00
	<hr/>
Total.....	\$2,543,500.00

3. The fact that provincial revenues include the substantial proceeds of certain taxes, the imposition of which are justified only upon the basis of emergency. The Special 2% Income Tax is said by many to fall within this category. The collections from this tax during the last fiscal year were \$1,825,388.59.

ANALYSIS OF MANITOBA'S TREASURY PROBLEM

In addition to the urgently required current increases in expenditure above noted, the following capital expenditures are required to provide accommodation for the mentally diseased and mentally deficient:

New buildings at Selkirk and Brandon required within six years	\$500,000.00
New buildings at Portage la Prairie for mentally deficient, required immediately	300,000.00
Miscellaneous buildings at Selkirk, Brandon, and Portage la Prairie, required immediately	35,000.00
Total	\$835,000.00

It is therefore abundantly clear that from any rational and realistic viewpoint the budget on current account of the Province of Manitoba is actually out of balance by a much larger sum than the four million odd dollars which it was necessary for the province to borrow for relief purposes from the Dominion in the last fiscal year ending April 30, 1937.

ALTERNATIVE METHODS OF BALANCING MANITOBA'S BUDGET ON CURRENT ACCOUNT

This budget, like all others, can be balanced by increasing revenues and/or decreasing expenditures.

Certain hypothetical methods have been suggested.

We submit the following as being worthy of examination, viz.:

To Increase Manitoba's Revenues:

1. By an enlargement of the provincial field of taxation by empowering the provinces to impose indirect as well as direct taxation.

or:

2. By increasing the Manitoba Government's revenue by financial assistance from the Dominion treasury in one or more of the following forms, (leaving untouched the problem of taxable capacity and the present fields of taxation):

- (a) by an increase in subsidy;
- (b) by the Dominion's abandoning the field of direct taxation;
- (c) by a sliding allowance to the provincial governments on a basis of the disadvantage to them resulting from Dominion policies, as established by a certain index to be agreed upon;
- (d) by distributing on a per capita basis of relief population among the provinces, the proceeds of a special tax to be levied by the federal government throughout the entire Dominion, sufficient to cover the whole cost of relief in all provinces.

To Decrease Manitoba's Expenditures:

3. By reduction of expenditures:

- (a) for general expenses of government;
- (b) for debt charges by debt conversion at lower interest rates;
- (c) by reducing the rate of incurring of new debt, which under present conditions, can only take the form of enabling Manitoba to refrain from borrowing to finance relief.

4. By the Dominion government's assuming the responsibility for and paying a larger part of the costs of social services and relief.

THE ESSENTIALS OF A NEW FINANCIAL PLAN

In weighing these hypothetical solutions it is first necessary to determine the essentials of the new system of Dominion-provincial relationships which we seek as a solution of our present difficulties.

The original terms of Confederation assigned certain responsibilities to the provincial governments. The trend of judicial decision has been to widen rather than to narrow the scope of these responsibilities. As R. A. MacKay* points out, "Nor is it possible for the Dominion itself to perform those functions entrusted to the Province.† If the Province does not perform them, they remain unperformed with the result that the whole scheme of government established by the British North America Act breaks down. The performance by the Province of its proper functions is thus vital to the continued existence of the Dominion as well as of the Province itself." Thus it is essential that we have a practical plan.

IT MUST BE A PRACTICAL PLAN WHICH WILL CONTINUE TO
WORK UNDER CHANGING CONDITIONS

It must work in the sense of enabling the weakest province in Confederation, if efficiently managed, to discharge its responsibilities now and in the future without drifting first into debt and then into default. If a proposed plan in this sense will not work and will not continue to work, in the face of changing conditions and political thought, then there is no use considering it.

Since the present plan so obviously does not work, a fundamental change is therefore needed. How should we approach that change? Should we approach

*See memorandum of Financial Relations between the Province and the Dominion with particular reference to Nova Scotia, amongst the appendices of Province of Nova Scotia Royal Commission Provincial Economic Inquiry, 1934, page 19.

† Except possibly in the case of emergency when the general power of the Parliament of Canada under Section 91 to legislate for "peace, order and good government" of Canada might enable it to act. See *Toronto Electric Commissioners v. Snyder, A.C. (1925) 396.* (MacKay's note).

it as the Fathers of Confederation did or intended to do, that is, by setting up a strong central government and an inexpensive kind of provincial machinery to do a slight amount of local work? We suggest that, with the advantages of hindsight, we now know enough about the cost of provincial administration in Canada to think that with the greatest conceivable limitation upon provincial powers and functions, provincial government could not be carried on in the inexpensive manner envisaged by Sir A. T. Galt. This is particularly so in western Canada, where provincial problems arising from variability of income, dependence upon export markets, population dispersion, and submarginal settlement exist, of which the Fathers of Confederation could have had no conception. Moreover, in view of the volume and extent of services now demanded by people from governments everywhere, it is impossible to suppose that provincial governments could be operated with Dominion subsidies and territorial revenues without imposing reasonable direct taxation.

To maintain the services now demanded of federal, provincial and municipal governments in Canada, taxation, which in the aggregate is much higher than that required to finance the laissez-faire conception of governmental responsibility in 1867, is now essential. The problem is to so reallocate between the provinces and the Dominion functions of government and fields of taxation, that the cost of maintaining necessary services will not be increased by overlapping and will be so equitably distributed that there will not be placed upon certain economic regions or economic groups insupportable burdens which in themselves create disequilibrium in the national economy and thereby diminish the national productiveness and create unemployment. An indispensable requisite of any such reallocation is that the government left with a function to discharge shall in fact have, and continue to have, a sufficient revenue to discharge that function along with all others for which it is left responsible.

PROPOSAL TO ENLARGE PROVINCIAL FIELD OF TAXATION

Let us examine the proposal to enlarge the provincial field of taxation, for example, by permitting the provinces to levy indirect taxes. There are several objections to this proposal.

Firstly, the taxable capacity of Manitoba, if not western Canada, has already been exploited to the full within the present field of direct taxation. Except to the extent, therefore, that changes in national policy or in other conditions affecting provincial income increased Manitoba's taxable capacity, there would be no purpose in its attempting to invoke the power to impose indirect taxation, unless perhaps to provide a substitute for objectionable direct taxes to be repealed. Thus the value of this power to impose direct taxation would depend upon the taxable capacity of the province which sought to invoke it. The province which needed the greatest returns from it would get the least. For these reasons it is unlikely that it would be a practical solution to the financial problems of the poorer provinces.

It is worth while to consider the facts of a case in point.

In 1936, recognizing the impossible position of certain provinces, the Honourable Ernest Lapointe* moved that an humble address be presented to His Majesty the King praying for an amendment to the British North America Act to enable the provinces to impose indirect taxes upon retail sales and places of amusement or entertainment.

The inadequacy of this proposed enlargement in the provincial power of taxation as a solution for Manitoba's financial difficulties at that time is indicated by the following facts and comparisons:

The whole of Manitoba's own share of relief and relief works for the fiscal year ended April 30, 1936, amounting to \$3,357,027.38, had to be borrowed from the Dominion as the only source whence money could be borrowed by Manitoba. If it had been paid for out of current revenue, which was the only proper method, it would have increased the provincial budget from \$14,438,873.44 to \$17,795,900.82. Manitoba's share of relief and relief works in 1936, a year quite typical of the period from 1932 to 1936, was, therefore, the equivalent of no less than 22.7 per cent of the province's 1936 budget on current account, or the equivalent of 44 per cent of the controllable expenditures for that year. (Being \$14,438,873.44 less debt charges of \$6,821,253.13, or \$7,617,620.31.)

But Winnipeg was also borrowing its share of relief costs in 1936. These amounted to \$1,604,040.21, which was 18.47 per cent of Winnipeg's entire budget on general account including schools but excluding debt charges. Thus, if it were the intention of the Dominion government to widen the field of taxation available for Manitoba and its municipalities (taking Winnipeg as the example in the present case) in order to pay for relief as a current expenditure, it would have involved raising that year by indirect civic or provincial taxation upon retail sales and hotel and restaurant patronage no less than \$4,961,067.59 (over and above the monies required to pay the shares of relief of all other cities and municipalities in the province). Moreover, this would have been on top of heavy customs taxation which, as has been shown, bears with particular severity upon Manitoba; a Dominion sales tax of eight per cent; and provincial and municipal taxation which, in relation to income, has the distinction of being the highest in Canada. Nor is that all. This extra \$4,961,067.59 of indirect taxation would have been imposed in spite of the fact that as between 1931 and 1936 the controllable expenditures of the province had been cut by no less than 22.31 per cent or an amount of \$2,187,439.97, and Winnipeg's "total municipal operating expenses," exclusive of direct unemployment relief, between 1931 and 1936 had been cut by \$371,619.05, or 8.37 per cent. That this proposed widening of the provincial field of taxation in the light of these facts was utterly without practical significance as bearing

*Hansard, page 2795, British North America Act. Proposed Amendment Relating to Taxation and Guarantee of Provincial Debts.

upon Manitoba's problem is transparently clear. Moreover, this difference of \$4,961,067.59 is so large an amount that no mere improvement in the provincial income or taxable capacity would produce enough revenue to take up \$4,961,067.59 of slack on relief account alone, leaving aside all question of restoring governmental services and Winnipeg's civic services made deficient by the \$2,187,439.97 and the \$371,619.05 cuts in controllable expenditures above mentioned. Enlarging the field of taxation does not even touch the problem. Some more fundamental adjustment is required.

ENLARGEMENT OF PROVINCIAL FIELD OF TAXATION WOULD
INCREASE OVERLAPPING

The possession by the provinces of this power of indirect taxation would set up overlapping of federal and provincial taxes over the whole field of taxation. With the Dominion's invasion of the income tax field we now have overlapping direct taxation. From the taxpayer's standpoint we should not multiply this evil by extending the power of indirect taxation to the provinces. In this connection it requires to be emphasized that the discharge of legislative and administrative responsibilities, which overlap as between the Dominion and the provinces, requires the levying of federal and provincial taxes to defray the cost of such overlapping Dominion and provincial services. Thus any division of the field of taxation between the Dominion and the provinces, no matter how scientific, would not wholly prevent the overlapping of taxation if there still remained any overlapping of services, because the overlapping services would have to be paid for by taxes levied by the Dominion in part, and by the province wholly, upon the income of persons in a given province who were simultaneously provincial and federal taxpayers.

Hence, if overlapping taxation is to be avoided completely, it can only come about through the avoidance of the overlapping of services. It is, of course, aggravated and intensified by extending to the sphere of indirect taxation the overlapping which now obtains in the field of direct taxation.

PROVINCIAL POWER TO IMPOSE INDIRECT TAXES IS DISRUPTIVE OF
BOND OF CONFEDERATION

But perhaps the most conclusive argument against empowering the provinces to impose indirect taxation is the one developed with so much force and point by the Right Honourable Arthur Meighen,* and not successfully contradicted, that the logical and even likely result of conferring such powers upon the provinces would be to enable them, by imposing indirect "ad rem" taxes upon transactions and upon goods imported into a given province from other provinces, to set up what would be, in effect, a system of trade barriers between provinces which would be in the highest degree disruptive of the whole scheme and bond of Confederation.

*Senate Debates, 1936, pages 316-317.

PROPOSAL TO INCREASE MANITOBA GOVERNMENT REVENUES

The second main alternative course is to increase the income of the Manitoba government by financial assistance from the Dominion government, taking the form of:

- a. an increased subsidy;
- b. the Dominion's abandoning the field of direct taxation;
- c. a sliding allowance to the provinces based on estimated disadvantages to them resulting from national policies, as established by a certain index to be agreed upon;
- d. distributing to the provinces upon a per capita basis of relief population the proceeds of a special federal tax of general application throughout the nation, sufficient to pay for the entire cost of relief.

INCREASE IN SUBSIDY BASED ON FISCAL NEED

With the possible exception of the subsidy adjustments made in respect of the retention by the Dominion of the western natural resources (wherein the adjustment seems to have proceeded upon the principle that a province has a constitutional right to adequate compensation for the impairment of its sources of revenue) the adjustments from time to time of the subsidy were made upon the actual basis of fiscal need, whatever may have been the colorable basis set up as a formula for these adjustments. Moreover, the actual subsidies allowed to the provinces which first entered Confederation were based upon fiscal need. This was also true even of the conditional subsidies or grants-in-aid given to the provinces to assist in the performance of a function of government assigned to the province, which it was in the national interest to discharge and which the province, by reason of fiscal need, could not perform without federal assistance.

If fiscal need is the real basis of subsidy allowance, then the sensible course is to frankly adopt it as such; and if the subsidy be retained as the main device of Dominion-provincial financial relationships, to determine a suitable formula for fiscal need applicable to all of the provinces with their varying circumstances and requirements; and then distribute subsidies upon the basis of that formula.

But, since in so doing even the pretence of equality of treatment, which has been maintained throughout the years, would have to be abandoned, it is conceivable that its abandonment would evoke the hostility of those provinces whose fiscal need was relatively small, if, indeed, they had in relation to the Dominion any fiscal need at all. Moreover, it would seem that there would be considerable difficulty in determining upon a formula for fiscal need which would be satisfactory to all provinces of Canada whether they received much, little, or nothing according to it. Even after the formula was agreed upon it seems reasonably certain that great difficulty would ensue in applying

it. R. A. MacKay, for example, suggests that there would be certain obligations upon the province which sought aid upon the basis of fiscal need to show that its administration was efficient; that its functions were not unduly advanced or more extensive than those of other provinces; and that it was levying a fair burden of taxation.*

But who would be the judge as to whether the province had met these obligations? Upon what standard of efficiency of administration and of taxation would the judgment be based? Suppose the province failed to meet any one or more of these standards and yet was in dire need through misfortune or even directly through its own extravagance and mismanagement. Would it nevertheless be helped, or be left to default and thereby inevitably produce an adverse effect upon the credit of its fellow provinces (particularly those in the same geographical or economic area), and of the Dominion.† All of these considerations seem to indicate that the suggestion that the subsidy be refurbished, modernized and made to serve is one which neither the probabilities of the future nor our experience in the past establishes as a satisfactory solution of our problem, unless perhaps the subsidy were so changed in its characteristics as to cease to be a subsidy as we know it. Most students of Dominion-provincial relations are agreed that the subsidy arrangement has been a most unsatisfactory one in practice.

The government of Manitoba is not opposed to the subsidy in theory, but, upon the basis of past experience, is skeptical as to the possibility of securing the assent of all provinces to a system of federal subsidies actually based on fiscal need and actually adequate to meet that need. Hence, rather than continue the subsidy as the main instrument of federal assistance of provincial finance, we submit that what is more likely to be workable is an arrangement between the Dominion and the provinces which will be more automatic in its workings; which will work reasonably well under all vicissitudes of provincial affairs; which will obviate periodical negotiations between the Dominion and the provinces and arguments as to the formulae and the application of formulae; and which, we think, given reasonable management of provincial affairs, will enable all provinces of Canada to carry on without difficulty once their present position of financial difficulty has been cured. We therefore shall propose to the Commission the treating of the subsidy in a manner which we shall outline in a later part. We shall also recommend an arrangement which will involve the Dominion government's assuming and paying for a substantially larger share of the responsibility for the new social and other services now demanded of the state. Only by this means can the burden of these expanding services be placed upon a tax base which is capable now and in the future of supporting it.

*See Memorandum on the Financial Relations between the Provinces and the Dominion, in Appendices to Nova Scotia Royal Commission Provincial Economic Inquiry of 1934 at page 37.

†See *ibid.*, page 34, for the views of Rt. Hon. R. B. Bennett on such a situation.

PROPOSAL THAT DOMINION RETIRE FROM FIELD OF DIRECT TAXATION

That the suggestion that the Dominion retire from the field of direct taxation falls short of being a suitable arrangement is well stated by the Honourable Mr. Rogers in his article, "One Path of Reform," in the Canadian Forum of December, 1934, where he says:

Those who have advanced this proposal have assumed that such a division of the income tax field would permit the provinces to meet their growing responsibilities for the maintenance of social services out of revenues collected by provincial taxation.

It needs but a brief examination of the results that would attend the adoption of this proposal to show how inequitable and unsatisfactory it would be in practice. The tendency of the tariff system of Canada has been to concentrate manufacturing activity in the provinces of Ontario and Quebec, whereas the burden of maintaining the protective tariff has been distributed throughout all the provinces and falls with particular weight upon those provinces whose income is derived chiefly from primary production and export markets. The abnormal concentration of manufacturing activity in the central provinces has had important effects upon the productivity of income taxes and corporation taxes in the various provinces. It has increased to a marked degree the number of companies subject to direct corporation taxation in the provinces of Ontario and Quebec. It has also contributed materially to the larger corporation and individual incomes of these provinces. It is not too much to say that the protective system has fertilized the income tax field in Ontario and Quebec by a process which has resulted in the partial impoverishment of this field of taxation in other provinces whose economic development has been prejudiced by the effects of the fiscal policy of the Dominion. When, therefore, the provincial distribution of income is considered in relation to the effects of fiscal policy, it is apparent that the withdrawal of the Dominion from the individual income tax field would benefit most those provinces which stand least in need of additional revenues. It would exaggerate the disparities in provincial finance which already exist and which have been aggravated by the unequal effects of national fiscal policies.

A study of the income tax collections from the various provinces of the Dominion will indicate that on the basis of existing rates the provinces which are mainly dependent on agricultural production would gain very little by an arrangement which would give them the proceeds of individual income taxes within their boundaries. The invasion of this field of taxation by the Dominion was fortuitous but fortunate. It enables the Dominion to act as a redistributing agency through which some portion of the profits accruing through the protective tariff can be utilized either for direct subsidies to the provinces which have suffered most through the effects of the tariff or for the maintenance of common standards of social services throughout the entire Dominion. There is nothing to prevent the provinces from imposing income taxes if they desire to do so. It is evident, however, that the retirement of the Dominion from this field of taxation would accentuate the unequal effects of tariff policy upon the financial position of the various provinces.

PROPOSAL THAT DOMINION MAKE A SLIDING ALLOWANCE TO PROVINCES BASED ON INDEX OF DISADVANTAGES TO PROVINCES FROM NATIONAL POLICY

The suggestion that the Dominion government should make the provinces a sliding allowance based on estimated disadvantages to them, resulting from national policies, as established by a certain index to be agreed upon, is sound enough in theory, but in practice we submit that all of the difficulties which

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have been experienced with regard to arriving at the proper subsidy to be paid to the province, would be met with in arriving at the index by which this allowance was to be paid. As in the case of the subsidy, the Manitoba government is not opposed to this proposal in theory; but although willing to co-operate in a consideration of its possibilities, is extremely dubious as to the chances of securing the agreement of all of the provinces to a sliding allowance which would be adequate to meet the needs of the poorer provinces, and to an index which would work satisfactorily.

PROPOSAL TO DISTRIBUTE TO PROVINCES PROCEEDS OF A NATIONAL TAX TO FINANCE UNEMPLOYMENT RELIEF

The distribution to the provinces upon a per capita basis of relief population of the proceeds of a special federal tax levied upon the whole nation, earmarked for relief purposes, and sufficient to pay for the entire cost of relief out of current expenditure, is, in our judgment, the only practicable solution of the problem of financing relief, short of the taking over of the same, both as regards financing and administration, by the Dominion government. If it could be contended that relief could not be administered much more efficiently, cheaply and rationally by the Dominion government than under the present system, we would strongly urge upon this Commission the distribution of this relief tax as above outlined. But for reasons which we shall shortly give, we believe that the administration by the Dominion government of relief and unemployment insurance and of a national employment service is so much to be preferred to the present inefficient and overlapping service, however financed, that the Dominion government should take over the administration as a move thoroughly desirable in itself, quite apart from the fact that by so doing the Dominion government would fulfill the imperative necessity of relieving the Western provinces from the present insupportable burden of relief.

PROPOSAL TO REDUCE PROVINCIAL GOVERNMENT EXPENDITURES

The third and fourth main alternative courses are:

3. Reduction of expenditures:

- a. for general expenses of government;
- b. for debt charges;
- c. by reducing the rate of incurring new debt for relief purposes.

4. By the Dominion government assuming and paying for a substantially larger share of the costs of social services and relief.

PROPOSAL TO REDUCE GENERAL EXPENSES OF GOVERNMENT

Dealing with these proposed reductions in order named, we ask the Commission to note that from what has already been said herein, it will be apparent that any substantial additional savings in the reduction of the ordinary expendi-

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tures of the government of Manitoba are not practicable. It is a fact vouched for by the Bank of Canada after examination of Manitoba's affairs and accounts that fairly substantial increases should be made in the ordinary expenditures of government in order to bring governmental services up to a desirable minimum. The needs for such increases in ordinary expenditures have already been stated.

PROPOSAL TO REDUCE DEBT CHARGES

As regards debt charges, it will be equally apparent that in any programme looking to the rehabilitation of Manitoba's finances, the conversion of her public debt at substantially lower interest rates is an indispensable feature. Business men, financiers and taxpayers generally deplore increases in taxation not more than politicians who tend, in specific cases, to be the first victims of the public reaction to such increases. Unhappily, financiers and business men view with an alarm equal to that which an increase in taxation inspires in them, the least deviation from strict observance of debt contracts in general and government bonds in particular. It is apparent from the most superficial examination of the following figures that it is in respect of the items of Public Welfare Charges and Debt Charges, in which substantial increases have taken place, that substantial economies can be effected, looking to a reduction of taxation.

<i>Per Capita Cost in Manitoba</i>	<i>Years</i>		
	1881	1891	1936
Public Debt.....		\$.53	\$9.60
General Expenses of Government.....	\$1.60	1.13	1.66
Education.....	.38	.85	2.44
Public Welfare.....	.11	.23	3.71
Public Works.....	1.57	1.12	1.93
Public Domain.....	.05	.50	.96

Debt charges, as these figures show, are a heavy item. In 1936 charges on the gross debt absorbed 47.24 per cent of Manitoba's budget. It is banal but true to say that if we do not convert our debt we must continue to pay a disproportionate part of our whole budget for debt charges. Thus to balance our budget and/or reduce taxation we must convert our debt at substantially lower interest rates.

By way of illustration let us look at some Manitoba figures. Manitoba's total net production in 1926 was \$347,804,991.00. Her taxes for the nearest fiscal year ending April 30, 1927, were \$5,342,046.86. Her debt charges for that year were \$4,061,419.00.

Manitoba's total net production in 1933 was \$165,927,693.00. Manitoba's taxes for the nearest fiscal year ending April 30, 1934, were . . . \$7,542,199.00

If Manitoba's revenue from taxation had been decreased in proportion to the 52.3 per cent decline in total net production between 1926 and 1933 it would have amounted to 3,598,157.00

with a resultant loss in taxation revenues of \$3,944,042.00

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In connection with these figures it should be noted that Manitoba's combined provincial and municipal taxation, as a percentage of income, was the highest in Canada in 1926 at 6.37 (all provinces 5.11), and again in 1933, at 14.36 (all provinces 10.34).

As we have said, if taxation had decreased in proportion to total net production in the year ending April 30, 1934, it would have been . \$ 3,598,157.00
Non-tax revenues in that year were 6,424,722.00

Total revenue in that year would then have been \$10,022,879.00

The debt charges in the year ending April 30, 1934, were 6,707,544.00

Which would have left for all other functions of government . . \$ 3,315,335.00

Actually there was spent for government services in the year ending April 30, 1934, not including debt charges, the sum of . . \$ 7,295,989.00

And there was spent for the province's share of relief (which was treated as a capital expenditure but which should be financed on current account) 2,329,019.00

There was, therefore, expended for these purposes \$ 9,625,008.00

To meet which we would have had, as above noted 3,315,335.00

Which would have left on current account a deficit of \$ 6,309,673.00

But, meanwhile, Manitoba's controllable expenditures which, in the year ending April 30, 1931, were \$9,805,060.00

Had been reduced, in the year ending April 30, 1934, to 7,295,989.00

Making a reduction for the period of \$2,509,071.00

We mention these figures to indicate to what absurd conclusions one can be led by the argument that taxes should be reduced, but that debt charges must under no circumstances be reduced. These figures also show how difficult it is to make any headway with Manitoba's financial problem without reducing debt charges; and the extent of the heroic measures which have already been taken by the Manitoba government pending an examination of our case, by means of drastic taxation and equally drastic economies, to uphold the credit of Manitoba and, in so doing, that of Canada. We say "pending an examination of our case" advisedly because it must be abundantly clear that these measures cannot be maintained much longer unless relief in some form now being sought is extended to this province.

PROPOSALS TO REDUCE CHARGES AND BORROWING FOR
SOCIAL SERVICES AND RELIEF

Items 3 (c) and 4 last above mentioned, relating respectively to the reduction in the rate of incurring new debt for relief purposes and the proposal that a substantially larger share of the costs of certain social services and relief be assumed and paid for by the Dominion, may be considered together.

PROPOSAL THAT DOMINION ASSUME AND PAY FOR A LARGER SHARE OF THE
COSTS OF SOCIAL SERVICES AND RELIEF

Let us examine for a moment the proposal that a solution can be found of the problem of the Dominion-provincial financial relationships, by leaving the provincial field of taxation as it is and having the Dominion assume and pay for a substantially larger share of the costs of certain social services and relief.

In considering these proposals the social services here discussed may be divided into three classes:

First: Unemployment relief, unemployment insurance and employment service. Particular emphasis should be placed on this class.

Second: Those services which our present experience leads us to believe can only be efficiently administered under provincial auspices. Such services would include all those in which local administration was necessary and in which the exercise of local discretion would determine to a large extent the ambit of the service and its cost; e.g., child welfare and hospitalization. Since the province cannot continue to finance this type of service unassisted it is suggested that the Dominion should contribute a substantial percentage of such cost, under strict regulations made by the Dominion government as to the efficient management and control by the province of such services.

Third: Such services as old-age pensions, in which the claim upon the state comes into existence automatically, providing certain facts, which are easily ascertainable and easily checked, are first proven by the claimant. As to these services which are now substantial and which will, in all likelihood, continue to increase, the logical solution is that they should be administered and financed by the Dominion government as it is the body which has an unlimited taxing power over the taxable capacity of the whole Dominion. Only in this way can a common minimum standard of social service be provided for Canadians in all parts of Canada without inevitably involving certain poorer provinces in default.

Let us first consider this suggested course in the light of the intentions of the Fathers of Confederation. It is apparent that since they obviously considered that the work left to the provinces would be an insignificant amount to be done with an inexpensive machinery, they could not have intended that it should include services which have now become so extensive and costly.

It would seem clear that these services were not contemplated at all, but that if they had been they would have been considered as falling under the Dominion's residual power. Certainly, from an economic standpoint, the functions attributable to demands of an entirely novel character made upon the state in Canada should be maintained by the Dominion government which has an unlimited field of taxation. This is especially so in view of the fact that the provincial government has been under the necessity of sharing even its limited field of direct taxation with the Dominion government.

As the Honourable Mr. Rogers pointed out in an article from which we have previously quoted, the British North America Act, 1867, was an expression of the political philosophy of "laissez-faire." The scope of government, particularly in respect of social services, was narrowed by this philosophy. The effect of the judicial interpretation of the British North America Act has been to place the new social responsibilities of government upon the provinces which are unable to maintain them. This has intensified the "laissez-faire" character of the Canadian Constitution in an era during which political thought, at least in the matter of the social responsibilities of government, is moving away from the "laissez-faire" idea. The provision under Confederation for governmental social services was a narrow one. Judicial interpretation has further narrowed it at a time when public opinion was attempting successfully to broaden it. The clash between the social demands of public opinion and the narrow provision for social services in the Canadian Constitution—in practical effect still further narrowed by judicial interpretation—has been at the expense of provincial treasuries. These demands will not subside. On the contrary, the tendency is for them to multiply and grow. For example, our population structure is such that twenty years hence we shall have, in all likelihood, twice as many people over seventy years of age in Manitoba as we have today, with resultant consequences upon the cost of old-age pensions.

The facts which we must recognize and take into account, as stated by Governor Towers in his address to the shareholders of the Bank of Canada, on February 23, 1937, are that:

The character of governmental responsibilities has changed materially during the present century. The budgets of 25 years ago—whether they pertained to the Dominion, or to the Provinces or to the Municipalities—contained no expenditure for old-age pensions or mothers' allowances, and the charges for hospitals and public health were much smaller than the amount required today. Still less was there any unemployment relief. These expenditures arise from an altered conception of public needs and governmental responsibilities. This change imposes a necessity for financial administration of a high order if the burden is to be equitably distributed, or indeed, if it is to be borne at all.

COSTS OF RELIEF

It is here relevant to indicate the size of the burden of providing unemployment relief in Manitoba.

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The size of the burden which was to be maintained upon the limited tax base and limited, varied, and variable taxable capacity of the province of Manitoba is indicated by the following table:

TABLE 13—UNEMPLOYMENT RELIEF COSTS IN MANITOBA, 1931-1938
Provincial share only

Fiscal Year Ending	Rural Rehabilitation	Single Men	Relief Works	Family or Direct Relief	Total For Year
April 30, 1931.....			\$ 264,697.20	\$ 294,603.61	\$ 559,300.81
April 30, 1932.....			1,901,999.49	1,113,246.88	3,015,246.37
April 30, 1933.....	\$ 24,822.64	39,720.42	1,065,105.48	1,551,698.28	2,681,346.82
April 30, 1934.....	47,163.90	294,872.55	35,240.43	1,951,742.76	2,329,019.64
April 30, 1935.....	45,158.11	251,679.38	156,540.38	2,095,186.00	2,548,563.87
April 30, 1936.....	68,784.00	257,290.69	1,162,475.93	1,868,476.76	3,357,027.38
April 30, 1937.....	80,602.84	459,409.05	1,756,597.73	1,763,457.61	4,060,067.23
April 30, 1938*.....	95,000.00	430,000.00	1,012,100.00	2,000,000.00	3,537,100.00
Total.....	\$361,531.49	\$1,732,972.09	\$7,354,756.64	\$12,638,411.90	\$22,087,672.12

*Estimated.

The total cost of relief and distress and unemployment in the Province of Manitoba from October 31, 1930, to April 30, 1938 (the cost for the fiscal year 1938 being an estimate only), is \$63,019,275.98, classified as follows:

TABLE 14—GROSS COST OF RELIEF, DOMINION, PROVINCIAL AND MUNICIPAL

Type of Relief	As at April 30, 1937	Estimated Expenditure for the Year April 30, 1938	Total
Direct and Family Relief, includ- ing Drought Area.....	\$32,758,453.63	\$6,000,000.00	\$38,758,453.63
Relief Works.....	16,136,449.48	2,515,500.00	18,651,949.48
Single Men.....	3,701,537.60	1,000,000.00	4,701,537.60
Rural Rehabilitation.....	682,335.27	225,000.00	907,335.27
Total.....	\$53,278,775.98	\$9,740,500.00	\$63,019,275.98

These amounts are so large that we perhaps unconsciously refrain from relating them to Manitoba's budget. When this is done, however, their staggering proportions are emphasized. For example, in the twelve months of 1936, January to December, the cost of relief in Manitoba to the three governments, Dominion, provincial and municipal, was \$11,727,047.79. This amount equals 81.21 per cent of the total of Manitoba's ordinary expenditure for all purposes including debt charges in the fiscal year ending April 30, 1936. This aforesaid amount for the calendar year of 1936 was over 50 per cent more than all of the controllable expenditures of the provincial government put together in the fiscal year ending April 30, 1936.

For each of the calendar years from 1933 to 1936 the average number of individuals on relief was as follows:

1933.....	77,699
1934.....	79,754
1935.....	81,712
1936.....	86,033

The amount borrowed by Manitoba from April 30, 1930, to the present (less repayments to date) in order to pay for its own share of unemployment relief and those portions of the municipalities' share which it has had to lend to municipalities is \$23,736,570.51.

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Beyond doubt this is a financial problem of the utmost gravity and importance. Unless, and until, it is solved there can be no sound policy of public finance in Canada, and particularly in the western provinces.

WORKING OUT OF PRESENT RELIEF SYSTEM IN NATIONAL ECONOMY

Let us scrutinize the present division of responsibility for relief as between the municipalities, the provinces and the Dominion government.

We have in Canada four major industries which, in order of value of their products in 1935, were as follows:

Manufacturing.....	\$950,170,000
Agriculture.....	622,772,000
Mining.....	238,581,000
Forestry.....	227,500,000

The three primary industries of agriculture, forestry and mining are directly dependent upon export markets. Manufacturing is dependent to a less extent directly upon export markets, but depends in substantial measure upon selling its products to those engaged in agriculture, mining and forestry; and is thus indirectly dependent upon export markets as well.

Each of these three primary industries operates in reasonably well defined economic areas. Each of these three primary industries is operated by reasonably well defined labour groups. Suppose, as has happened, that the market, shall we say, for newsprint collapses. The men in that industry are thrown out of employment. The men in that industry, as taxpayers and consumers in the economic area in which their industry is located, cannot pay taxes and cannot pay their debts or buy from merchants and others. It may be, and likely is, that the export market for newsprint is quite beyond the control of our governments in Canada. Certainly, if Federal control over national trade and monetary policies will not prevent the export market from collapsing, or shield the nation to some extent from the effects of the collapse, the provincial government even with its wide jurisdiction over property and civil rights cannot pass any laws or take any action to prevent or shield us from such collapse. More certainly, the hypothetical City of Sturgeon Falls, in the heart of the depressed area, could not have prohibited the collapse by a municipal edict or law.

So the collapse takes place and inevitably brings with it the train of events—disbanded bush gangs, closed mills, unemployment, suspension of interest and dividends on many newsprint investments—the effects of which, in the aggregate, we can call an economic disequilibrium in our national life. Under our present arrangement our method of dealing with the relief costs arising from this economic disequilibrium is to load as much of them as we can as municipal taxes upon such of the citizens of Sturgeon Falls as are not yet bankrupt and upon such property as has not yet been sold for taxes; and then as much of these relief costs as the city can borrow upon the same citizens and property as municipal debt. If the city has been prudently and carefully managed, it may borrow a great deal, whereas if the city fathers have extravagantly incurred an already insupportable debt, they may not be able,

and therefore not be compelled to borrow anything for relief. Next, as much of these relief costs as can be borne is cast upon the same citizens of Sturgeon Falls, and, of course, all other citizens of the province, as provincial taxes and provincial public debt. Finally, the residue of the load is borne by the Dominion government.

For a nation whose national income is so poorly distributed among such a small number of major industries, all of which are dependent in such great degree upon export markets, this method of cushioning the effects of the depression in any one of the industries is economically unsound and unfair.

If there is an unavoidable disequilibrium which in itself directly casts a heavy burden of reduced income upon Sturgeon Falls and its citizens, are we going to cure it by piling on this reduced income the primary cost of unemployment relief, or by distributing the cost of relief as widely as possible over the whole nation? What incentive is there for sound municipal finance if we reward it by exhausting, for relief purposes in as many months, the credit that has been built up by many years of prudence and economy? What investor in his right senses is going to buy the bonds of even a well-managed municipality, or province, in a sound financial position if he has to underwrite in doing so the possibility of the municipality or province being ruined by a burden for which it has not, and was deliberately intended by the Fathers of Confederation not to have, the proper means to provide?

Let us suppose, as has also happened, that a collapse takes place in all industries at the same time. The figures which we have brought before you indicate that even then the decline in the income among the industries, economic areas and labour groups is not uniform. Even upon the basis of income, there is room for an evening up. But it is notorious that in Canada, wealth which has been produced in abundance in the primary producing areas, northern Ontario and northern Quebec, western Canada, the Maritimes, and British Columbia—western Canada, for example, has produced wheat alone to the gross value of over seven billion dollars since it was opened up—tends to concentrate in the industrial and banking centres. In national emergencies is it not wise, not only for western Canada, the Maritimes or British Columbia and the other primary producing areas but for the industrial centres and their citizens as well, if only upon the plane of self-interest, to preserve from bankruptcy and disaffection a large economic area in which there is a valuable market for industrial goods, which has been of great value to them and will be of great value again? The industrial centres will undoubtedly have this market if we adopt wise policies. The cost of those policies will be a very cheap price indeed to pay for the salvation and continuance of such a market, to say nothing of the great social and political benefits which would also accrue.

EFFECT OF PRESENT RELIEF SYSTEM UPON LAND TAXES AND BUILDING RECOVERY

In taking care of a given number of unemployed persons it has been found that it costs a great deal more to provide relief works for them than it

does to provide direct relief. The financing two-thirds of the cost of relief upon the tax base of the province and municipalities, therefore, creates a tendency to favour immediately economical direct relief rather than the provision of work. As long as relief is thus financed, any large system of relief works is virtually impossible. Moreover, even in respect of the works which are authorized, the Dominion grant is usually made conditional upon the province and municipalities paying a portion of the cost at a time when, upon any rational basis, they are wholly unable to do so. This practice hastens the financial downfall of the province and the municipalities by loading an insupportable burden upon the narrow tax base which the municipalities and the province must share between them.

Another obvious disadvantage of this system is that land, as the form of wealth which must bear a large percentage of municipal taxation (for amongst others, relief purposes), has become so heavily burdened that a large and growing proportion of it is being forfeited annually to the municipalities and cities by tax sale. Moreover, the unduly heavy land tax is a serious handicap in another direction. Recovery elsewhere has been associated with a revival of the capital goods industries. Many eminent economists think that in the revival of the capital goods industries lies the greatest hope for recovery, and for ending unemployment. In western Canada the most conspicuous example of the capital goods industry is the building trades. We have a real need of more houses—for the accommodation of our overcrowded population, and to provide work for our unemployed population. A housing programme is the obvious remedy. What stands in the path of it? Excessive land taxes—the direct result of our method of handling and financing social services and unemployment relief. The burden of the land tax is the greatest single obstacle to the recovery of the building trade, for the simple reason that no one can erect houses upon land so burdened, to rent at even the smallest rate of profit, for a price that tenants can afford to pay. Thus the workmen in the building trades remain idle, on relief, and by consuming without producing add still further to the burden of the tax that stands in the way of a building programme which would give employment.

This is recognized by the Purvis Commission, which states in its interim unemployment report at page 9:

It is realized also that the study will probably throw light on the extent to which taxation practices now in force are tending to hold back the normal functioning of real estate activities in the country's economy.

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However, examination showed that there were two fields in particular in which prompt action was most desirable:—

1. In the construction industry where employment was still at an abnormally low level and where the recovery was lagging badly all over the country in relation to that experienced in other industries.
2. In agriculture where, owing to low prices in previous years for farm products, and also to drought conditions, many farmers had for some time found themselves unable to continue to employ winter help.

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PRESENT RELIEF SYSTEM DOES NOT EXEMPT DOMINION GOVERNMENT FROM A HEAVY FINANCIAL BURDEN

According to the Bank of Canada Report on Manitoba's Finances, page 21, the total assistance in the form of loans, guarantees and Dominion share of relief costs, as at March 31, 1937, was \$51,750,588.00. The present system cannot be favoured on the plea that it enables the Dominion to escape in the long run a liability which should be the Dominion's responsibility in the short run. Moreover, since the income of a province will produce so much taxes and no more, anything that the Dominion saves under the present system of relief administration will have to come out of the holders of provincial bonds in a manner which will do little to credit the honesty of the Canadian people or the intelligence of Canadian statesmen.

As a matter of fact our approach as a nation, or rather should we say, the joint approach of our municipalities, provinces and the Dominion government, to the problem of unemployment has been singularly unintelligent. It has been stated* that from the beginning of the problem in 1931 we spent under Dominion, provincial and municipal auspices more than \$800,000,000.00 before we even took the trouble to have a national registration and classification of persons on relief, which was inaugurated in September, 1936, under the authority of the Hon. Mr. Rogers. Until this was done and the various aspects of the whole problem sorted out and analyzed it is difficult to see how rational objectives could with any precision be conceived, much less pursued. However else one may regard this joint unconcern as to basically relevant facts, one cannot regard it as a recommendation for the present system. Meanwhile the payment of relief moneys to employables over a long period of time has undoubtedly had the effect of substantially reducing the numbers of employables and substantially adding to the number of unemployables.

REPORT OF PURVIS COMMISSION

Having reached this point in the joint handling of the unemployment problem under the combined auspices of municipalities, provinces and the Dominion, a Commission is appointed under the chairmanship of Mr. A. B. Purvis, which at long last comes to grips with fundamentals and in doing so necessarily comes into collision with the dead hand of our Constitution. The result is stated on page 15 of the Commission's Interim Report:

As it is held that the division of authority under the British North America Act gives to provincial governments exclusive jurisdiction in the field of civil rights, the prior obligation in meeting dependency rests primarily with the province, or, in turn, the municipality. And while appreciating that changing conditions in economic life; the limited taxation powers of local units of government; and the fact that Dominion policies affect local employment opportunities, have led to participation by the Dominion in meeting the cost of economic dependency, nevertheless the Commission strongly recommended that, as long as the present constitutional basis exists, the method introduced in 1934, of granting aid on a temporary or emergency

*See The Financial Post—Front page editorial in issue of October 16, 1937, an estimate based on a compilation which appeared on Page 8 of the Statistical Summary of the Bank of Canada for April, 1937.

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basis without definite or adequate control should be abandoned by the Dominion and the following basic principles accepted:—

1. That the primary responsibility for the relief of distress should remain with the municipal authority and/or the province;

2. That the Dominion should contribute thereto only when in its view it is shown that a practical necessity exists because of the *unusual* nature or extent of the distress;

3. That the Dominion should attach such conditions in the granting of such aid as it deems necessary and proper with due regard to—

- (a) Careful co-ordination of effort, and

- (b) Supervision through the designation of a proper Dominion authority.

In handling the question of aid distribution it is in the opinion of the Commission of the utmost importance that great care should be taken to provide such aid as is given under its proper name. In other words, it is considered that unemployment aid should be only given where it is demonstrated beyond doubt that unemployment is in question.

The broad breakdown of the different types of aid which it is proposed should therefore be used in future is as follows:—

1. Persons ordinarily “gainfully working” on a self-supporting basis, but requiring aid due to economic causes (generally referred to as “unemployed” persons);

2. Persons requiring assistance or relief due to physical, mental or social handicap (generally referred to as “unemployable” persons).

As previously shown, Dominion aid to provinces and municipalities has been restricted in intent and policy to the relief of those in the first main group, but in the unusual pressure of recent years, and largely attributable to the adoption in 1934 of the lump sum payments to provinces, in practice there has been a general tendency for provinces and municipalities to apply Dominion aid to the relief of both types of distress.

The problem now is so to re-align the administration of Dominion aid as to ensure that the Dominion shall contribute only for persons who are ordinarily self-supporting, which aid would, therefore, diminish with improved economic and agricultural conditions.

NEW RELIEF PROCEDURE RECOMMENDED IN INTERIM REPORT OF PURVIS COMMISSION

A statement of the practical steps to be taken to secure grants-in-aid is then set out. The formal application of the province must be accompanied by evidence showing the financial need and the relief need of the province, and those of its municipalities seeking help.

The conditions upon which these grants-in-aid are to be made include the restriction of Dominion aid to those ordinarily self-supporting and to those areas for which Dominion aid is given.

The Commission goes on to say on page 17 of its report:

The Commission is now engaged in preparing its recommendations in regard to the second main division of those requiring relief, i.e., the “organization of assistance and relief to those suffering from mental, physical or social handicap,” and additionally in connection with the co-ordination of aid, assistance and relief measures, including voluntary relief. Recommendations to cover these further phases of the subject will be subsequently submitted.

It seems to be a fair inference from the foregoing that the Dominion will restrict its grant-in-aid to the financing of relief given to employables.

If this is so, then the implementing of the Commission's report means simply that in addition to the burden which the provinces and municipalities are now carrying they will have to take over the entire cost of caring for 58,261 fully and partially unemployable persons plus their dependents, to the support of all of whom the Dominion government is now contributing. According to the accepted priority of responsibility under the present practice, the cost of caring for these unemployables would fall upon the municipalities. Winnipeg, for example, would have to take over 2,694 of these, of whom 829 are heads of families, whose dependents would also have to be maintained. Manitoba and its municipalities, as a whole, including Winnipeg, would have to take over 4,580 of whom 2,235 are heads of families with dependents requiring to be supported. This arrangement would put the municipalities of Manitoba, including Winnipeg, in a substantially worse position than their present impossible one. In the absence of some compensating form of assistance to meet the situation thereby created it would mean further municipal default in the near future. The provincial government and certain municipal governments in Manitoba cannot go on indefinitely borrowing money to maintain a relief burden which has always in justice been the responsibility of the national government. To increase that burden at this juncture will simply hasten the inevitable end.

We should like in this connection to reserve the right to make further representations on this point when the final report of the Relief Commission comes to hand.

THE BRITISH SYSTEM

The Purvis Commission, in its interim report, has made it quite clear that, "As it is held that the division of authority under the British North America Act gives to provincial governments exclusive jurisdiction in the field of civil rights, the prior obligation in meeting dependency rests primarily with the province, or, in turn, the municipality"; also that, "*as long as the present constitutional basis exists,*" the basic principle "that the primary responsibility for the relief of distress should remain with the municipal authority and/or the province" should be accepted. Certain conclusions are imposed upon the Purvis Commission as a result of these constitutional limitations to its field of enquiry and of recommendations. The conflict between the law and economic fact which we see here is an epitome of the whole problem with which this present Royal Commission is now concerned. Apart from these constitutional limitations, however, one would think that the interim report of the Purvis Commission in its general approach and certainly in regard to its recommendations for a national employment service was inspired by the British system which has been described as the best in the world. What was the British experience?

To quote Davis on this point:*

Unemployment assistance in England in its various stages during the last depression was financed first through advances from the insurance fund, then from joint

*See "They Shall Not Want" by Maxine Davis, published 1937 by the Macmillan Company, New York, at pages 215 and 216. For a more comprehensive treatment of this same subject, see Chapter XX of "Social Administration Including the Poor Laws" by J. J. Clarke, published in 1935 by Pitman & Sons, Ltd., London.

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contributions from the national treasury and the county and county borough councils, which as a matter of fact met only a small portion of the cost. Under the last and newest law, almost the entire burden of expense for this relief is borne by the country as a whole. Great Britain found that decentralizing relief was unsatisfactory and financing it with various types of contributions was likewise unsound in practice. It made both administration and payment the responsibility of the central government.

This is the sum and substance of the British relief policy. The unemployment insurance supplements the savings of working people over short periods of unemployment. Unemployment assistance provides them with a meagre subsistence when they are unable to find jobs before their insurance expires. There is a third form of relief—the poor laws. But as the poor laws are local and are no longer charged with the problem of unemployment relief, they do not concern us here.

Unemployment relief in Great Britain is administered with surprising efficiency and with very few charges of corruption or favoritism.

In part this is due to the appellate provisions, which exist not only for the insurance scheme but for public assistance. If Tom Miller is dissatisfied with the decision of the area office concerning his unemployment assistance allowance, he may appeal to the nearest of 139 tribunals consisting of a chairman and two members.

The justice with which the system is administered is largely due, however, to the fact that the staff again is a part of the enviable Civil Service.

Highly specialized social scientists are not so common among them as in our (United States) various relief administrations. Nor, because they do not attempt the multitudinous functions, are there comparatively so many employees. The staff of the Unemployment Assistance Board, from the chairman to typists, messengers, and cleaners in the various offices, number slightly more than 6,000. Compare this with the 185,766 persons who were employed by the Federal Emergency Relief Administration—taking into consideration the fact that our population is about three times that of Great Britain!

BRITISH EXCHEQUER CONTRIBUTES 95 PER CENT OF THE COST OF RELIEF OF THE ABLE-BODIED UNEMPLOYED

In answer to protests made by the local authorities that they still had to pay too much, the Right Honourable Neville Chamberlain, then Chancellor of the Exchequer, said:*

With regard to the general question as to whether local authorities have or have not been liberally treated under the substantial proposals of the Bill (Unemployment Assistance Act, 1934) . . . To put it in a nutshell, what is the use of talking about the old story of taxation without representation when, as a matter of fact, the Exchequer is contributing 95 per cent out of 100 per cent of the cost of relief of the able-bodied unemployed?

As to this, the Right Honourable Viscount Sankey, then Lord Chancellor, said on the Second Reading of the Bill (Unemployment Assistance Act, 1934) in the House of Lords:†

The estimated cost to local authorities during the "standard year" of the relief of the able-bodied unemployed which will be transferred to the new Board is 6,500,000 pounds. Of this sum the local authorities are to contribute 3,600,000 pounds. The

*Hansard, Vol. 286, col. 972; see also whole debate, cols. 941–986.

†Hansard, House of Lords, Vol. 92, col. 899.

authorities, however, receive block grants from the Exchequer which amount to about 23 per cent of their total expenditure. The effect of this is that the sum which authorities will have to find from the rates will be about 2,100,000 pounds a year up to March 31, 1937, when this matter, together with the block grants, will fall to be reviewed. Against this sum there is to be contrasted the expenditure in respect of able-bodied unemployed falling directly upon the Exchequer, for which provision of a figure approaching 50,000,000 pounds has been made in the current financial year. The disbursements from local rates, therefore, amount to less than 5 per cent of the charge in respect of the relief of able-bodied unemployed not entitled to benefit. In addition, there is the Exchequer contribution to the unemployment insurance scheme, which for 1934-35 is estimated to be 20,800,000 pounds.

DOMINION ADMINISTRATION AND FINANCING OF RELIEF ONLY METHOD OF PROVIDING UNIFORM NATIONAL MINIMUM STANDARD OF RELIEF

It is submitted that there should be a uniform national minimum standard of relief and social services to which Canadians as Canadians wherever they live are entitled; and that with the variation in income between the various provinces of Canada, and the variability of income from year to year in the same province or provinces, having the entire administration and financing of relief handled by the Dominion government is the only satisfactory way of providing it. It is explicitly submitted moreover, that the Dominion government responsibility in this regard should extend to those unemployables and partial unemployables who, not being partially or wholly unemployable at the time when they went on relief, have become so as a result of their unemployment continuing or being permitted to continue under the present method of joint relief administration. These men and women are now unemployables not as a result of their own original unemployability, but as a result of their own continuing unemployment and consequently form a part of the unemployment problem for which the Dominion government should assume responsibility. It will be noted that what we are suggesting does not offend the principle that it is wrong for a government to spend money which it has not the responsibility of raising. Our suggestion is that the administration as well as the financing should be wholly under Dominion auspices.

DOMINION RELIEF SCHEME WOULD REVOLVE AROUND NATIONAL UNEMPLOYMENT INSURANCE AND NATIONAL EMPLOYMENT SERVICE

That a national system of unemployment relief administration would work much better than the present system, and that it is the only system that is likely to work satisfactorily, is indicated by certain features of the Canadian economy. Canada has a relatively narrow distribution of the national income amongst three major exporting industries, the prosperity of which is subject to international as well as domestic conditions. A portion of Canada is highly industrialized, and faces the employment problems peculiar to industrialization. It is also dependent in large measure upon the prosperity of the exporting industries for its markets. Under these conditions it would seem inevitable that any rational unemployment relief administration should revolve around a national unemployment insurance scheme. The establishment of any number up to nine separate provincial unemployment schemes is unthinkable either

from an economic, financial or political point of view. Therefore, if there is to be an unemployment insurance scheme, it must be under federal auspices, nation-wide and associated, as in Great Britain, with the type of national employment service recommended by the Purvis Commission.*

THE CONSTITUTIONAL DIFFICULTY EXAMINED

The basis upon which the burden of relief has been placed upon the provinces and municipalities is a legal one arising from the interpretation placed upon certain sections of the British North America Act by the Privy Council. This basis is described in detail in Part II of this brief. Its effect is tersely stated in the selections which have been quoted from the Purvis Commission's Report.

It may be noted in passing that this Commission recommends that, *as long as the present constitutional basis exists*, the method of granting aid by the Dominion to the provinces shall be upon certain basic principles set out in the report. Whether we can assume from the clause in italics above noted that if the present constitutional basis had not existed or ceased to exist, the Commission's recommendations would have been, or would be, different from those made, we may point out that the same constitutional difficulty exists with respect to the appointment of this national employment service as exists with respect to the assumption of relief by the Dominion government. Provincial acquiescence does not overcome this constitutional difficulty. It is, of course inconceivable that any of the provinces would question the validity of the appointment of such a national employment service. Not only is its appointment an essential step towards rationalizing unemployment relief in Canada; but the cogent reasons for its appointment so succinctly developed in the report are precisely the reasons why in the whole field of relief administration, a uniform administration by the Dominion Civil Service is the only thinkable solution to present difficulties. The only thing that stands in the way of the Dominion taking over relief as it should is the constitutional difficulty; and this same difficulty, in spite of provincial acquiescence, would seem to stand in the way of the national employment service which the Purvis Commission has recommended.

REASONS FOR DOMINION ADMINISTRATION AND FINANCING OF RELIEF ARE ANALOGOUS TO THOSE ADVANCED BY PURVIS COMMISSION FOR NATIONAL EMPLOYMENT SERVICE

On the next page we paraphrase the Purvis Commission's recommendation for a national employment service—with which, needless to say, we heartily agree—for the purpose of applying the Commission's argument regarding the employment service, to the wider question of relief administration in general.

*See The Interim Report of the National Employment Commission at page 18.

*Text of Commission Report**

Early in the Commission's investigations it became evident that the first and most vital step necessary to the successful handling of employment, re-employment and aid administration problems is the development of more efficient Employment Services throughout Canada. The present Provincial Employment Services are in practice unfitted to meet the exigencies of the situation. Divided responsibilities and diversity of aims between different provinces; unequal development as regards numbers, types and functions of local offices; unsuitable locations of premises; defects in provincial boundaries when used as economic administrative units, etc., have all tended to result in the Provincial Employment Services not being utilized fully either by employer or by employee.

The provision of a proper link between employer and employee; of local advisory councils supplementary to local Employment Service offices in order to provide focal points for attacks on local problems; of means for gauging the relative degree of employability of those in receipt of aid, are of pre-eminent importance if any real progress is to be achieved in handling unemployment problems. Indeed this is the experience of other countries also.

Bearing in mind the desirability of uniformity of practice where financial aid for the Dominion is in question; of freedom from local pressure in administration; of a Dominion source of local information independent of province or municipality in respect to unemployment assistance, etc., the Commission recommended in August, 1936, that the Employment Service be administered nationally. In any case, the situation requires increased and improved service which will cost more, but it is recognized that national administration in itself would not add anything to the total cost to the country as a whole. The Commission, however, believes the extra cost to the Dominion government of the transfer from the provinces would be more than offset by efficiencies and, therefore, economies which would result.

*See The Interim Report of the National Employment Commission at page 18.

Paraphrase and Application of Reasons to Relief Administration

It is evident that the first and most vital step necessary to the successful handling of unemployment insurance and relief is the development of a single, uniform efficient service throughout Canada. The present joint system of municipal, provincial and Federal administration and financing of relief is unfitted to meet the exigencies of the situation. Divided responsibilities and diversity of aims between different provinces; unequal development as regards numbers, types and functions of local offices; unsuitable location of premises; defects in provincial boundaries when used as economic administrative units have all tended to result in overlapping waste and inefficiency.

It is the experience of Great Britain that joint administration by the National Government and county and county borough councils was unsatisfactory and joint financing under the same joint auspices unsound in practice.

Bearing in mind the indispensability of providing a uniform minimum social service for Canadians throughout Canada; of freedom from improper local pressure and maladministration if and where such exist; and of a single Dominion source of uniform relief statistics as the basis of a single uniform unemployment insurance and unemployment assistance policy, we submit that the entire administration and financing of relief be handled as a single national system by the Dominion government. The situation calls for an improved and uniform service which will cost the Dominion more, but it is recognized that national administration in itself would not add anything directly to the total cost to the country as a whole, and would indirectly effect great savings in removing, in part at least, the disequilibrium which has been caused by the present Dominion-provincial financial set-up in general, and division of responsibility for relief in particular. We firmly believe that the extra cost to the Dominion government would be more than offset by efficiencies, by the removal of improper local pressure and local maladministration, if and where such exist, and that upon balance, substantial economies in the long run and greater budgeting accuracy for the Dominion forthwith, would result.

If in this paraphrase we have presumed, and admittedly without proof, to refer to conditions as facts which have no existence in fact, we vindicate our presumption by suggesting that if, under the present relief administration system, such conditions do not exist, it must be quite accidental.

An informed British view, based upon long experience, is worthy of quotation at this point.*

Local authorities have repeatedly urged that the state should take over full administrative and financial responsibility for the maintenance of all the able-bodied unemployed. This was promised by the Minister of Health in the House of Commons in a speech made in April, 1933. To a great extent the Act (The Unemployment Act, 24 and 25 Geo. V., cap. 29) gives effect to this principle and should result in a substantial saving to local authorities. The administration of assistance to the able-bodied unemployed was imposing excessive strain on the machinery of local government, especially in the distressed areas. The Act and the financial provisions made in connection with the scheme will relieve local authorities of a large proportion of a very heavy burden.

The problem is not local but national in its scope, and if it is to be effectively handled it must be through some national machinery. The creation of a central authority to administer the scheme will help in many directions. It will secure fairness and uniformity of treatment, subject to the varying conditions in different areas. The central authority will be able to co-operate more fully with voluntary associations which have been formed to help the unemployed. It will be able to view the industrial field as a whole and, through its contact with the Ministry of Labour, will be in a better position than a local body to help the unemployed to transfer to places where work is obtainable. It will be in a position to finance, co-ordinate, and control the arrangements for maintaining employability of the able-bodied unemployed. The scheme will remedy an injustice, as it will place on an equal footing, so far as state assistance is concerned, the able-bodied unemployed who have exhausted their insurance rights and the able-bodied unemployed who have never come within the unemployment insurance scheme at all. The scheme will remove a large proportion of the able-bodied unemployed from the purview of the public assistance authorities and the poor law, and will link them more closely with the industrial machinery, the main purpose of which is to secure for them opportunities of employment.

The Act creates permanent machinery by which the problem may be treated as an industrial problem, not only by the provision of assistance for those out of work, but also by devoting attention to the more important question of finding work for the unemployed and maintaining their efficiency while they are in receipt of assistance from the state.

PRACTICAL DIFFICULTIES IN THE WAY OF DOMINION ADMINISTRATION NOT INSUPERABLE

It has been said that the insuperable obstacle to Dominion administration is the practical difficulty of setting up and properly supervising a branch of the Civil Service throughout Canada for this purpose. No difficulty whatever was experienced in this regard in other important Dominion services such as the income tax service. No one suggests that it is unwieldy, or less efficient than the provincial services where they exist. As a matter of fact, by reason of

*See: "Social Administration, Including The Poor Laws," by J. J. Clarke, M.A., F.S.S., published by Sir Isaac Pitman & Sons, Ltd., London, 1935, at pages 213 and 214.

certain advantages inherent in a national administration, and which could have their counterpart in a national relief administration, just as the Purvis Commission has suggested that they have their counterpart in a national employment service, the national income tax collection service tends to be more efficient than the provincial. Where the provincial and municipal relief officials are efficient they could be taken over. It would be rather a remarkable confession for the Dominion to suggest that these men would be less efficient when working under Dominion auspices than when working under provincial. If and where the municipal and provincial officials were inefficient, they need not be taken over, and there should be a net gain in efficiency here. As regards any balance of staff which might be required, and which could not be filled from the existing Dominion service, it may be said that in these days when the services of so many young professional and other trained men of the first rank are to be had for a moderate figure, the argument that an efficient service cannot be set up is quite unimpressive.

Moreover, the Purvis Commission, as has been noted, recommends upon the most excellent reasons the appointment of a national employment service for Canada. For reasons which have been stated, a national unemployment insurance scheme would seem to be an essential of any real attack upon unemployment. A nation-wide service is essential for the successful operation of each of these schemes. With the national unemployment insurance and the national employment service staffs housed and functioning, we submit that it would be more simple, more efficient and less wasteful, to make a measurable addition to these staffs for a national unemployment relief administration, rather than to continue the maintenance and housing of separate provincial staffs in each province, together with a great number of municipal staffs from one end of the country to the other as well. What is involved here is not merely a matter of expense. Speaking, for example, of the preliminary work in breaking the problem into its component parts by statistical analysis, the Purvis Commission states:*

Considerable difficulties have been met in this phase of the work, easy to understand when it is borne in mind that in the relief registration alone the co-operation of officials in all the provinces and in over 1,800 administrative units has been required.

In this connection the fact should not be lost sight of that of the employables and partial employables in the whole of Canada, two-thirds of their number are in cities of 25,000 or over and approximately 85 per cent in towns or cities, so that that single uniform organization would not need to be as wide-spread as might appear. Many of the rural municipalities, in the entire number of which only 15 per cent of the persons on relief are congregated, could be handled by a single inspector covering a wide area. All in all, the difficulties are not by any means insuperable, nor anything like as incapable of solution as the past, present and future effects of the present system of relief administration.

*See The Interim Report of the National Employment Commission at page 6.

SUMMARY

In summarizing this Part we ask the Commission to find that:

1. The original plan of Confederation was based upon a social philosophy which did not recognize as a responsibility of the state the provision of:

- (a) Social Services as we have them today, such as, for example, unemployment relief; pensions for the aged, for widows and for the blind; health and unemployment insurance under state auspices.
- (b) Education on the scale now demanded by the citizens.

2. That the Fathers of Confederation specifically did not intend the provinces to have any responsibility for, and/or did not in the financial plan of Confederation provide the provinces with adequate financial capacity for the provision of the aforesaid Social Services and increased educational costs.

3. That practically the whole of the increase in Manitoba's per capita governmental expenditures has been in respect of the following three items:

- (a) Education.
- (b) Public Welfare and Social Services.
- (c) Debt Charges.

4. That the critical increase in Manitoba's debt charges has been due, in large measure, to the provinces borrowing for Social Services as aforesaid, including relief, because it did not have under the financial plan of Confederation adequate financial capacity to pay for these services out of current revenue.

5. That the Dominion subsidy, intended as a device in the financial plan of Confederation to supply such a large part of the provincial revenue that provincial direct taxation on a large scale could, with prudent management by provincial governments, be avoided, has been a rigid source of revenue to the provincial treasuries which have had to meet rapidly increasing expenditures. That in consequence, as a percentage of total current revenue, the Dominion subsidy has declined from 88.08 per cent in 1875 to 12.27 per cent in 1936, while in the same period direct taxation has increased from nothing in 1875, nothing in 1881, and .46 per cent in 1891 to 53.81 per cent in 1936.

7. That the provision of unemployment relief should not be financed as a capital expenditure by borrowed money, but as a current expenditure out of current revenue.

8. That, other things being as they have been, if Manitoba had so financed its own share of unemployment relief, and those portions of the municipalities' shares which it has had to lend to municipalities, its accumulated deficit in current account for this item alone in the period from April 30,

ANALYSIS OF MANITOBA'S TREASURY PROBLEM

1930, to April 30, 1937, would be \$23,945,637.25. This total is made up, \$23,736,570.51 due to the Dominion and the public, plus moneys advanced to municipalities out of provincial trust funds to the amount of \$209,066.74.

9. That Manitoba has, in effect, funded this deficit on current account and has been forced to borrow almost the whole of this from the Dominion government because it could not borrow in the money markets.

10. That if the Dominion government, during this interval, had not continued to lend to Manitoba, the province would have been unable to meet its liabilities.

11. That, in the language of the Bank of Canada report:

On the side of expenditures, Manitoba's cuts in general government since the middle twenties are second only to those of Saskatchewan; her reductions of education, highway and public works maintenance, and in all capital expenditures are greater than in any other province; the only categories in which expansion has occurred are public debt charges and social services (old age pensions and medical service). It is our conclusion that Manitoba has done considerably more than most governments to meet its expenditures and obligations.

Nevertheless the province has found that the steadily mounting liability for relief has reduced the possibilities of borrowing in the open market in order to make necessary or desirable expenditures. That capital expenditures in connection with highways and hospitals and increased current expenditures for education, public health and highway maintenance (to mention certain main items only) will soon be essential, cannot be doubted.

12. That, again in the language of the Bank of Canada report:

During the most of the period under review, and specifically during the last five years, the government of the province of Manitoba has made striking and commendable efforts to keep its budget balanced and to avoid unnecessary increases in debt, by imposing taxation on a scale at least as high as that of any other province in Canada, and by restricting expenditures as far as it was possible to go without curtailing expenditures to an extent that would not have been in the public interest.

13. That, again in the language of the Bank of Canada report:

We understand it to be the view of the government that additional funds must be obtained for the preservation of the road system, for education and for mental institutions. While we do not feel qualified to estimate how large an amount is needed for additional expenditures of a character which cannot be postponed, we agree that some additional expenditures are inevitable, and we are not prepared to say that it is practical to increase revenues by further taxation.

14. That the expenditures made in the fiscal year ended April 30, 1937, by the government of Manitoba for educational grants, roads and public buildings' maintenance and labour law enforcement and for care of the mentally

ANALYSIS OF MANITOBA'S TREASURY PROBLEM

afflicted, hospitalization, disease prevention and other social services under the Department of Health and Public Welfare are inadequate to provide a satisfactory minimum standard in the services named by the amount of approximately \$2,500,000.00.

15. That due in large part to the financial plan of Confederation as interpreted by the courts, Manitoba and other provinces and a number of municipalities in Canada are on the verge of default or have already defaulted.

16. That the essentials of a new financial plan of Confederation are:

- (a) It must enable the weakest province of Canada to secure sufficient revenue to discharge all functions left with it.
- (b) It must minimize the overlapping of functions and taxation.
- (c) It must distribute between Dominion and provinces, functions and taxing powers so that insupportable burdens will not be left upon certain provinces, economic areas or economic groups.
- (d) It must work and continue to work in the face of changing conditions and changes in social and political thought.

17. That an enlargement of the provincial field of taxation is unwise.

18. That in the long run each of the following is not in itself a sound or desirable solution to Manitoba's treasury problem:

- (a) Any increase in the Dominion subsidy to an amount which is politically practicable.
- (b) The Dominion's retirement from the field of direct taxation.
- (c) A sliding allowance to the provinces from the Dominion treasury based on estimated disadvantages to them resulting from national policies as established by an index to be agreed upon.

19. That the conversion of Manitoba's public debt at much lower interest rates is imperative.

20. That short of the Dominion's taking over the whole administration and financing of unemployment relief, the only practical solution of the problem of financing relief is for the Dominion government to distribute amongst the provinces upon a per capita basis of relief population, subject to such reasonable restrictions as to administration as the Dominion may impose, the entire cost of unemployment relief, either as a grant, or as the proceeds of a special federal tax upon the whole nation earmarked for relief purposes.

21. That the financing of relief is quite beyond:

- (a) The present revenue producing capacity of Manitoba.
- (b) The revenue producing capacity which it is possible or desirable for every province in Canada to acquire under a change in the Canadian constitution.

22. That the present system of financing relief:

- (a) Will cause the inevitable bankruptcy of many of the provinces and municipalities of Canada.

- (b) Imposes a crushing burden of taxes upon land, and thereby,
- (c) Retards building construction, and thereby,
- (d) Adds to unemployment;
- (e) Transforms employables into unemployables;
- (f) Either does not provide a uniform standard of relief, or as the cost of providing such standard in certain of the poorer provinces and municipalities, inflicts an insupportable and unfair burden of taxation and public debt upon the taxpayers of these provinces and municipalities;
- (g) Inflicts an unfair and insupportable burden of taxation and public debt upon the citizens of the municipality in which the unemployed in large numbers decide or happen to congregate;
- (h) Leaves the conservative investor who buys gilt-edged bonds of a well-run and financially-sound province or municipality in the position of having to underwrite the risk of the unemployed in large numbers happening or deciding to congregate in that municipality or province;
- (i) In effect, taxes the conservative investor who buys the gilt-edged bonds of a well-run, financially-sound province or municipality by a tax of up to 100 per cent of his interest and in many cases a substantial part of his principal, if unemployment relief in the province or municipality whose bonds he holds makes it necessary to take the moneys required to service his bonds, for unemployment relief; and thereby,
- (j) Destroys the credit of certain provinces and municipalities.

23. That the financial burden of pensions for the aged and the blind and certain other social services cannot under the financial plan of Confederation and under existing conditions be borne by certain of the provinces, including Manitoba.

24. That the administration and financing of relief by the Dominion is the wisest solution to the relief problem because:

- (a) It would do away with all of the inequitable and subversive effects of the present system of relief administration;
- (b) It would provide a uniform national minimum standard of relief without casting an unfair and unsupportable burden upon any municipality, province, or economic area;
- (c) It would prevent overlapping in administration costs;
- (d) It is the only system which would work in satisfactorily with:
 - (1) The national employment service recommended by the Purvis Commission;
 - (2) A national unemployment insurance scheme;

- (e) It would conform more closely with the British system of unemployment relief administration;
- (f) It would deal with a national problem by a national instrument upon a national scale, and could therefore be co-ordinated with national trade, monetary and tariff policies;
- (g) The practical difficulties of Dominion administration are not insuperable.

25. That pensions for the aged and the blind are a class of social services of which efficient administration by the Dominion government is possible, and should be assumed by the Dominion government as its responsibility.

26. That under existing conditions a substantial share of the other social services now being provided by the provinces should be assumed by the Dominion.

This brings us to the conclusion of our remarks upon the Treasury Problem of Manitoba. We have tried to make these remarks as concise and yet as comprehensive as possible. We hope they will be of some assistance to the Commission in its important task.

APPENDIX B

BANK OF CANADA

Ottawa, February 11, 1937.

REPORT ON THE FINANCIAL POSITION OF THE PROVINCE OF MANITOBA

In response to an invitation from the Premiers of Saskatchewan and Manitoba and the Minister of Finance of the Dominion government, we undertook to make an examination of the financial positions of the provinces of Manitoba and Saskatchewan. It was understood that the examination would not imply a detailed study of all departmental expenditures and revenue, but would constitute a broad, general survey of the provinces' positions and of the factors which have been responsible for the present situation. The examination in Manitoba, reported on below, was conducted along these lines.

An outline of Manitoba's recent financial history is a necessary background for any appraisal of the present situation and problem. We find that the years from 1926 to the present, reviewed in relation to economic conditions in the province, may be divided into several periods with distinctive characteristics.

In the text which follows, statistics are used as sparingly as possible; the salient figures will be found in summarized form following each section; more detailed statistics will be available, if desired, in the form of supplementary memoranda. The short time which could be devoted to the examination of Manitoba's financial position and the preparation of this report have not permitted the meticulous checking of statistical details which would otherwise have been desirable. But we have no hesitation in expressing the opinion that minor inaccuracies in the figures—if any exist—do not distort the picture, or affect the general conclusions which we have reached. The figures that follow will in all cases relate to fiscal years unless otherwise stated.

FISCAL YEARS 1926–1929

(Approximate calendar years 1925–1928)

THE ECONOMIC SITUATION:

Diverse trends were evident in Manitoba's economy. The decline in the importance of wheat continued. Even the bumper crop of 1928 scarcely exceeded that of 1905, and whereas Manitoba's 1905 crop was more than half the total prairie production, the 1928 crop was less than a tenth of the total.

On the other hand, coarse grain crops, notably barley, rapidly expanded, accompanying an increase in livestock, dairy and poultry production. The net result was a moderately declining tendency in gross agricultural income, and, as a result of the increased production for domestic use in mixed farming, a quite sharp decline in net cash income; but a somewhat more diversified and self-supporting economy was developing. This decline in agricultural income, which was contrary to the general trend of the times, had an important reaction on provincial finances.

Primary industries other than agriculture—forestry, mining and fishing—and power production, manufacturing and repair work expanded rapidly. These increases were almost adequate to maintain the total value of the province's production at approximately the same level throughout. In addition, general trade and service income increased, particularly in Winnipeg, which benefitted from the more rapid expansion in the Saskatchewan and Alberta tributary areas. Nevertheless, all provincial income rose more slowly in Manitoba during this period than in the rest of Canada; retail sales increased 15 per cent from 1926 to 1929 as compared with a 23 per cent increase in Canada as a whole.

THE FINANCIAL SITUATION:

In 1926, Manitoba was still struggling under the burdens laid upon her in the 1918-22 period. Government debt was increased from \$40 millions in 1918 to \$82 millions in 1923 as a result of extravagant expenditures on agricultural and business enterprises and public works projects, initiated in a period of high prices. The ensuing price deflation made the greater part of this expenditure a heavy burden on the greatly reduced income of the province.

Realizing that provision would have to be made for large capital losses and current deficits on the various business enterprises, in addition to providing for the greatly increased expenditure of the government itself, Manitoba was in the forefront of Canadian provinces in increasing taxation and decreasing controllable expenditures. For the first time, sinking funds were established to reduce the debt. Gasoline and income taxes were imposed in 1923, and with the assistance of good crops in 1924, 1925 and 1926, made the proportion of total government revenue derived from taxation the highest of any province (48 per cent as compared with 40 per cent for all Canadian provinces. This and subsequent comparisons are based on *total ordinary revenue less interest received* in order to put all provinces on as comparable a basis as possible).

By 1926, increased taxation and reduced controllable expenditure had enabled the province to make a good start in writing off the losses and cleaning up the situation inherited from the 1918-22 period. The next three years saw some modification of financial policy. As previously noted, economic conditions were not as favourable in Manitoba from 1926 to 1929 as in the rest of Canada, and steps were now taken to lighten taxation, particularly on land. At the same time, expenditures were relatively well held down, and the provincial business enterprises were in some cases established on a firmer basis. Of these, the Tele-

phone System was completely self-supporting and was making good progress in writing off early deficits; the Power Commission (after the loss of half the government's investment in it) was meeting its remaining annual interest requirements, although falling short of adequate provision for depreciation; the advances to the Rural Credit Societies were being liquidated, the Government Grain Elevators had been liquidated and the losses transferred to deficit account; and the Farm Loans Association was meeting interest due to the government, although drawing on its sound assets to do so, and unable to make any provision for losses incurred or likely to be incurred.

Government revenues continued to increase from 1926 to 1929, almost entirely because of larger receipts from business enterprises and miscellaneous sources. In 1927 the supplementary revenue (land) tax was reduced from 2 mills to $1\frac{1}{4}$ (and in 1928 to 1) and income taxes were reduced 20 per cent. In addition, it was provided that further surpluses should be used to the extent of 80 per cent in reducing the provincial land tax, and as to 20 per cent in reducing income taxes. This last step was most retrograde. It ignored what should be a fundamental principle in the financial policy of any body with a highly fluctuating income. Reserves should be provided in prosperous years, when taxation bears relatively lightly, in order to help in lean years when the tax burden is heavy. As a result of these measures the supplementary (land tax) revenues were reduced from \$1,325,000 in 1926 to \$810,000 in 1927 and (by application of 80 per cent of the previous year's surplus) to \$82,000 in 1928, and income taxes were also reduced by \$141,000 in the latter year. As noted in the 1928 budget speech, "owing to this reduced tax, the revenues of the province have been cut down so that there is sure to be a deficit for the fiscal year 1928, and a still greater deficit for the year 1929." These were, of course, prosperous years in which preparation might well have been made for possible emergencies. The province recouped itself for the reduction of one mill in the land tax rate (although not for the rebate of the surplus) by cancelling the 1922 rebate to the municipalities of 50 per cent of the Liquor Commission profits.

Some relaxation in the restriction of ordinary expenditures occurred in the fiscal year 1929, and a beginning was made on extensive capital programmes, chiefly in connection with the telephone and highway systems. Nevertheless, it may be that the sharp curtailment in ordinary and capital expenditures (both absolutely and in comparison with other provinces) through the middle twenties made some increases necessary. Expansion was most marked in social service expenditures, since old age pensions were introduced in 1928-29, and hospitalization and medical services were greatly extended.

In brief, the 1922-29 period may be summarized as one in which Manitoba inherited an extremely serious financial situation, and in which, in spite of only a moderately increased taxable income, the province succeeded in making the smallest percentage increase in net debt of any province except Quebec, and put itself in what might then legitimately have been considered to be a

strong financial position. This success may be ascribed primarily to consistent economy, and to a lesser extent to an increase in taxation. In spite of decreases in taxation in the later years, the proportion of Manitoba's revenues derived from taxation in 1929 still exceeded that of any other province. However, there must also be criticism of the failure to provide any reserves for the valleys that must inevitably follow the peaks in any primary commodity exporting area. The following table summarizes the salient statistics of the period:

TABLE A
MANITOBA PUBLIC FINANCES**
(1916, 1921, 1926-29)

(Millions of Dollars)	(Fiscal Years ending April 30)						Total 1926-29
	1916*	1921*	1926	1927	1928	1929	
ORDINARY REVENUE (Cash Basis)							
Fixed Revenue (a)	2.2	2.8	2.4	2.8	2.9	3.1	11.2
Tax Revenue	0.9	3.7	4.3	4.6	3.9	4.4	17.2
Other Ordinary Revenue (b)	1.5	3.1	4.0	4.1	4.4	4.7	17.2
Total Ordinary Revenue	4.6	9.6	10.7	11.5	11.2	12.2	45.6
ORDINARY EXPENDITURE (Cash Basis)							
Interest	1.3	3.3	4.0	3.9	3.9	4.0	15.8
Exchange on Interest	—	0.1	—	—	—	—	—
Amortization and Sinking Fund	—	—	0.2	0.2	0.2	0.3	0.9
Social Services (excluding Education)	0.7	1.9	1.6	1.9	1.9	2.5	7.9
Other Ordinary Expenditure	2.8	5.0	4.8	4.8	5.3	5.8	20.7
Total Ordinary Expenditure	4.8	10.3	10.6	10.8	11.3	12.6	45.3
Net Adjustment for Accruals	—	0.1	0.5	—	0.4	0.4	0.5
ORDINARY SURPLUS OR DEFICIT							
(as per Public Accounts) (1)	0.2	0.6	0.6	0.7	0.5	—	0.8
INVESTMENTS IN OR WITHDRAWALS FROM CURRENT ASSETS (2)							
	1.0	1.5	1.8	0.6	0.8	0.3	1.7
CAPITAL AND SPECIAL EXPENDITURES OR REPAYMENTS							
Fully Self-Supporting Loans & Utility Investments	0.2	2.2	0.9	0.2	1.3	1.4	3.8
Fixed Assets (Highways & Public Works)	1.6	4.9	0.8	1.1	1.8	2.9	6.6
Other Loans & Investments (Agr. Cr. etc.)	1.5	6.0	0.1	—	0.1	0.5	0.5
Net of Discount, Exch., Cap. Rev., etc.	—	—	0.1	0.2	0.1	0.2	0.2
Relief—Prov. Expen. + Loans to Munic.	—	—	—	—	—	—	—
Total Capital and Special Expenditure (3)	3.3	13.1	1.7	1.5	2.9	5.0	11.1
INCREASE OR DECREASE IN GROSS DEBT i.e. sum of (1) + (2) + (3)							
	2.5	12.2	0.7	1.4	2.6	5.3	8.6
Increase or Decrease in Debt Retirement Funds	0.6	0.3	1.4	1.1	1.7	1.7	5.9
INCREASE OR DECREASE IN DEBT OUTSTANDING							
	1.9	11.9	2.1	0.3	0.9	3.6	2.7
TOTAL DEBT OUTSTANDING							
Active Assets (e)	19.	32.	33.	35.	35.	36.	
TOTAL NET DEBT (h)							
	11.	32.	38.	37.	38.	40.	
Of Which: Fixed Assets	13.	25.	31.	32.	34.	36.	
: Portion of "Other Loans and Investments" which bore full interest during year	4.	14.	15.	14.	17.	11.	

**For notes see table in Appendix.

FISCAL YEARS 1930-1933

(Approximate calendar years 1929-1932)

This period saw an extraordinary decline in values:—a fall of 45 per cent in the estimated (DBS) average net value of all production in Manitoba from the preceding four year period. Winnipeg bore the impact not only of the depression in rural Manitoba, but also in part of the collapse in Saskatchewan. Mining (and to a lesser extent electrical power) alone stood out against the trend.

The Government was caught between the fires of falling revenues on the one hand and of extensive capital commitments and fixed obligations on the other. The supplementary revenue tax was abolished at the beginning of 1930 (a loss of about \$630,000 at the reduced rate) and various other minor land taxes were shortly afterwards reduced or abolished. Assumption of an additional 25 per cent of the cost of old age pensions by the Dominion reduced the levy for that purpose by about \$300,000; the Child Welfare Levy (\$325,000 in 1930) and the Health Act Levy (\$140,000 in 1929) were repealed; and the Soldiers' Taxation Relief Levy was reduced from \$150,000 to less than \$20,000. These reductions were of benefit to urban real estate, which had borne about one-third of the land taxes. But the chief beneficiary was the farmer, who was thus almost completely relieved of provincial taxes, apart from relatively small amounts contributed through gasoline taxes, automobile licences, and the remnants of the land taxes (chiefly old age pension, judicial district and sanatorium levies). In addition, the rural districts were given telephone service by the government system at substantially less than cost, at the expense of Winnipeg subscribers. (The preference given rural subscribers was increased substantially in the following years, and the Power Commission service charges to farmers were also cut drastically).

Following the reduction of the land taxes, there were general increases made in corporation and income taxes, succession duties and gasoline taxes, and exemptions from the gasoline tax were severely restricted. There was much justification for relieving the land of fixed taxation in this period and for attempting to spread the burden more equitably in relation to income. Probably only a fraction of the original levy could have been collected during the following years in any case, and efforts at collection would have weakened municipal finances out of all proportion to the revenues received by the province. But it could be objected that in order to relieve the land at this time, a revised tax structure was set up which, under the most prosperous circumstances, would secure only negligible revenues from rural districts. In spite of the increases in taxation referred to, cash revenues fell alarmingly from 1930 to 1932 (\$3 millions) and Manitoba made early efforts to reduce expenditures.

Although Manitoba was in the forefront of Canadian provinces in cutting controllable expenditures (Government salaries were cut by 14 to 24 per cent in 1931 and 1932) there was naturally some delay in putting a stop to the

extensive capital expansion programme embarked on in 1929, and an acute financial crisis developed late in 1931. In addition to the heavy capital commitments (highway, telephone and power system extensions and improvements) a number of financial disasters piled up the liabilities in 1931 and 1932. The forced closure of the Provincial Savings Office, the necessity of implementing Manitoba's share of the guarantees given to the banks on their advances to the Canadian Co-operative Wheat Producers, the almost complete collapse of the Farm Loans Association (the bonds of which also bore a provincial guarantee) and other agricultural credit organizations, the exchange premium on external interest and debt payments, and the necessity of refunding large maturities under unfavourable conditions increased the debt and the debt charges by substantial amounts. In addition to an increase of annual interest charges from \$4 millions to \$6 millions, relief expenditures chargeable to the province rose to more than \$3 millions in each of the years 1932 and 1933.

These mounting obligations were met in part by the \$5 millions deferred subsidy from the Dominion in 1931. However, in the years 1931-2-3 cash revenue collections averaged \$2 millions a year less than in 1930, and the deferred subsidy, which was in effect used as current revenue during this period, only approximately compensated for the decline. To meet the extraordinary expenditures of the period, outstanding provincial debt was increased \$29 millions. Of this total, \$8 millions was borrowed from the Dominion to meet maturities and for relief purposes, and the balance from the public at effective interest rates as high as 6.78 per cent (on the \$5 millions 15-year issue in April, 1932). Of the total debt increase, \$20 millions might be classified as net debt.

To summarize the 1930-33 period, the economic catastrophe was such that even with tax adjustments designed to offset the repeal of the land tax and the fall in provincial income, and the \$5 millions deferred subsidy windfall taken into revenue, government income fell. In spite of marked economy in controllable expenditures such as salaries, education, and highway maintenance, mounting debt charges prevented any reduction in total expenditure classed as "ordinary," and this excluded the provincial share of relief. The rising debt and debt charges were in part due to the failure of the province to curtail its capital expansion program promptly enough (although in this instance its record is no worse than that of the other provinces), in part to the unsound condition of the province's agricultural credit enterprises, and in part to a number of factors such as unemployment and exchange depreciation over which the province had no control. It was this period which was responsible for the increase of debt charges to a figure that alarms the public at the present time, for total interest and exchange charges in 1936-7 will actually be slightly less than they were in 1932-3. The following table summarizes the significant financial statistics of the period:

TABLE B
MANITOBA PUBLIC FINANCES**
(1930-33)

(Millions of Dollars)	(Fiscal Years ending April 30)				
	1930	1931	1932	1933	Total 1930-33
ORDINARY REVENUE (Cash Basis)					
Fixed Revenue (a)	3.1	3.7	3.6	3.7	14.1
Tax Revenue	6.2	5.2	4.1	5.4	20.9
Other Ordinary Revenue (b)	5.2	4.9	3.8	3.1	17.0
Total Ordinary Revenue	14.5	13.8	11.5	12.2	52.0
ORDINARY EXPENDITURE (Cash Basis)					
Interest	4.3	4.4	5.0	5.7	19.4
Exchange on Interest	—	—	0.2	0.3	0.5
Amortization and Sinking Fund	0.3	0.3	0.3	—	0.9
Social Services (excluding Education)	3.1	3.0	2.9	2.5	11.5
Other Ordinary Expenditure	6.1	6.8	6.2	5.7	24.8
Total Ordinary Expenditure	13.8	14.5	14.6	14.2	57.1
Net Adjustment for Accruals	0.5	0.1	0.6	—	0.2
ORDINARY SURPLUS OR DEFICIT (as per Public Accounts) (1)	0.2	0.6	2.5	1.9	4.8
INVESTMENTS IN OR WITHDRAWALS FROM CURRENT ASSETS (2)	0.8	3.4	3.9	0.8	0.5
CAPITAL AND SPECIAL EXPENDITURE OR REPAYMENTS					
Fully Self-Supporting Loans and Utility Investments	1.7	2.3	3.3	0.2	7.5
Fixed Assets (Highways and Public Works)	3.1	3.3	2.2	0.2	8.8
Other Loans and Investments (Agr. Cr. etc.)	0.4	0.8	3.8 (c)	1.2	6.2
Net of Discount, Exh., Cap. Rev., etc.	0.1	4.8 (d)	0.8	1.8	2.1
Relief—Prov. Expen. + Loans to Munic.	—	0.6	3.3	3.2	7.1
Total Capital and Special Expenditure (3)	5.3	2.2	13.4	6.6	27.5
INCREASE OR DECREASE IN GROSS DEBT i.e. sum of (1) + (2) + (3)	5.9	6.2	12.0	7.7	31.8
Increase or Decrease in Debt Retirement Funds	1.5	0.6	0.2	0.8	3.1
INCREASE OR DECREASE IN DEBT OUTSTANDING	4.4	5.6	11.8	6.9	28.7
TOTAL DEBT OUTSTANDING	81.	86.	98.	105.	
Active Assets (e)	39.	44.	44.	44.	
TOTAL NET DEBT (h)	42.	42.	54.	61.	
Of Which: Fixed Assets	40.	43.	45.	45.	
: Portion of "Other Loans and Investments" which bore full interest during year	15.	9.	7.	5.	

**For notes see table in Appendix.

FISCAL YEARS 1934-37

(Approximate calendar years 1933-36)

A series of crop disasters in Manitoba and Saskatchewan prevented any economic recovery from the depths of 1932-33. The sharp decline in general production was checked, and a slight upward tendency developed, but from such a low point that it gave very little assistance to provincial finances. In 1936-37 there was some acceleration in the upward movement, in spite of the spread of the drought area in south-western Manitoba. Had the value of production in a single year fallen to a figure which represented the average of 1931 to 1936, it would properly have been marked as a year of calamity. But when the province suffered from six consecutive years in which the net value of its production was little more than half of that of the preceding period, discouragement and strain throughout the province were inevitable.

The period opened with the imposition of a special income tax of 2 per cent, which was levied on the whole income of every single person earning at the rate of more than \$480 a year and married persons earning at the rate of more than \$960. The initial proposal was for a 1 per cent income tax and a sales tax, but the sales tax proposal was dropped, and the income tax raised to 2 per cent, making it the heaviest income tax in North America in relation to small incomes.

On the side of expenditure, further cuts were made in highway maintenance, education, and other items, reducing total ordinary expenditures for the year 1933-34 in spite of another increase in debt charges. Capital expenditures ceased entirely. Revenues gradually began to respond to the 1930-34 series of tax increases, and expenditures to the economies which had been introduced, with the result that in 1935 the province balanced its budget (except for a small portion of its sinking fund appropriation) on all accounts except relief.

The following years conform to much the same pattern. Revenues were maintained at more than \$14 millions—or about \$3 millions more than in the late twenties. Expenditures, excluding relief (but including \$400,000 to \$500,000 annually for sinking funds and debt discount amortization) were held at a slightly lower level, and small surpluses appeared each year. British Columbia was the only other province reporting current surpluses. The following table summarizes the salient statistics of the period:

TABLE C
MANITOBA PUBLIC FINANCES**
(1934-37)

(Millions of Dollars)	(Fiscal Years ending April 30)				
	1934	1935	1936	1937 (Est.)	Total 1934-37
ORDINARY REVENUE (Cash Basis)					
Fixed Revenue (a)	3.8	3.6	3.7		
Tax Revenue	7.2	7.2	7.3		
Other Ordinary Revenue (b)	3.4	3.7	3.4		
Total Ordinary Revenue	14.4	14.5	14.4	14.2+	57.5
ORDINARY EXPENDITURE (Cash Basis)					
Interest	5.9	5.9	5.9		
Exchange on Interest	0.1	-	-		
Amortization & Sinking Fund	0.3	0.6	0.5		
Social Services (excluding Education)	2.5	2.7	2.7		
Other Ordinary Expenditure	5.0	4.8	5.0		
Total Ordinary Expenditure	13.8	14.0	14.1	14.0+	55.9
Net Adjustment for Accruals	0.6	0.3	0.2	0.2+	1.3
ORDINARY SURPLUS OR DEFICIT (as per Public Accounts) (1)	-	0.2	0.1	-+	0.3
INVESTMENTS IN OR WITHDRAWALS FROM CURRENT ASSETS (2)	1.0	0.7	0.1		
CAPITAL AND SPECIAL EXPENDITURES OR REPAYMENTS				0.5+	4.7
Fully Self-Supporting Loans & Utility Investments	0.2	0.1	2.3		
Fixed Assets (Highways & Public Works)	0.1	-	0.1		
Other Loans & Investments (Agr. Cr. etc.)	0.5	0.6	0.4		
Net of Discount, Exch., Cap. Rev., etc.	0.3	0.2	-		
Relief—Prov. Expen. + Loans to Munic.	2.6	4.5	4.5	4.7+	16.3
Total Capital and Special Expenditure (3)	2.3	3.6	1.9	4.2+	12.0
INCREASE OR DECREASE IN GROSS DEBT i.e. sum of (1) + (2) + (3)	1.3	4.1	1.7	4.2+	11.3
Increase or Decrease in Debt Retirement Funds	0.7	1.7	0.8	1.5+	3.1
INCREASE OR DECREASE IN DEBT OUTSTANDING	0.6	2.4	2.5	2.7+	3.2
TOTAL DEBT OUTSTANDING	105.	108.	110.	113. +	
Active Assets (e)	42.	43.	40.	40. +	
TOTAL NET DEBT (h)	63.	65.	70.	73. +	
Of Which: Fixed Assets	45.	45.	45.	45. +	
: Portion "Other Loans and Investments" which bore full interest during year	8.	12.	8.	10. +	

**For notes see table in Appendix.

RELIEF:

Relief became the outstanding budgetary problem. The province was forced to borrow not only its own share of relief expenditures from the Dominion, but also to borrow from the Dominion in order to reloan increasing amounts to the municipalities to finance their share of relief expenditures. A word should be said concerning the bearing of relief on the financial relations between municipalities and the province. The repeal of the major portion of the provincial land taxes put most of the rural municipalities in a better position to maintain their revenues, and by drastic retrenchment of educational and general expenditures they have been able, with relatively few exceptions, to maintain their solvency. The exceptions are notably those municipalities in the sub-marginal interlake lands, which are in chronic distress, and in the drought-stricken south-west corner. In the rest of Manitoba, the relief expenditures in the rural areas have been relatively negligible. Thus, apart from somewhat less than \$1 million loaned by the Dominion to the province and reloaned by the province to the drought area municipalities, virtually the whole Manitoba relief problem is concentrated in Winnipeg and suburbs. The majority of the Winnipeg suburbs were caught by the depression in a vulnerable position, as a result of ambitious expansion programmes, and were early forced into default. The provincial government was affected in two ways; the principal of the debentures of many of the defaulting municipalities had been guaranteed by the province, and the province had also to provide for the bulk of the current relief expenditures. The practice of guaranteeing municipal and hospital debentures and bank borrowings, without securing control or even detailed information of budgets, proved disastrous. The guarantees came home to roost when the guarantor was least prepared to meet them, and the Manitoba practice of including payments under such guarantees under the Public Accounts heading "Public debt charges" tended to obscure the situation.

Winnipeg itself entered the depression in an exceptionally strong financial position. As the chief urban centre of the West, however, it was perhaps called on to bear a disproportionate share of the relief burden. Some 84 per cent of all direct relief expenditures in the province have had to be made in Winnipeg and suburbs; including relief works expenditures the proportion is 74 per cent. Although Winnipeg's net debt was relatively low, the major portion of the provincial tax revenues were derived from the city, and there was little margin for increasing municipal revenues. Consequently, Greater Winnipeg was early forced to rely on the province for assistance in meeting its share of relief costs, and by the end of the fiscal year 1936 had borrowed \$3½ millions, or 95 per cent of total municipal borrowings from the province, excluding the drought area. Up to that date the province had had to loan to municipalities one-third of their total expenditures on relief. These loans also accounted for nearly one-third of the province's borrowings from the Dominion.

In round amounts, the province's own expenditures on relief, including estimated disbursements up to the end of the 1936-37 fiscal year, will total

ANALYSIS OF MANITOBA'S TREASURY PROBLEM—APPENDIX B

\$18½ millions. In addition, \$5½ millions have been loaned to municipalities, and municipalities will have spent \$9 millions more from their own resources. Of the \$24 millions spent or loaned for relief purposes by the province, the Dominion will have advanced \$19 millions, and will have paid an additional \$20 millions for its own share, making with the municipalities' \$9 millions a grand total of \$53 millions relief expenditures by all agencies. The total annual cost has been steadily increasing in spite of some improvement in general conditions, and the province's share is now nearly \$4 millions a year, to which may be added the \$1-\$2 millions which municipalities annually require to borrow. The following table summarizes the relief statistics of the depression years:

TABLE D
MANITOBA UNEMPLOYMENT RELIEF

UNEMPLOYMENT RELIEF EXPENDITURE (Thousands of Dollars)				
Payments during fiscal year ending April 30th	Dominion Share	Provincial Share	Municipal Share	Total Expenditure
1931	560	560	430	1,550
1932	3,180	3,010	2,280	8,470
1933	2,940	2,680	2,180	7,800
1934	2,430	2,330	1,790	6,550
1935	2,030	2,550	2,570	7,150
1936	3,550	3,360	3,000	9,910
1937*	4,950	3,800	2,700	11,450
Total	19,600	18,300	14,900	52,800

*Including estimated expenditures from January to April, 1937.

UNEMPLOYMENT RELIEF FINANCING

October 1, 1930, to April 30, 1937.
(Millions of Dollars)

DOMINION FUNDS		
Loans to Province		
For Provincial share of relief to Feb. 1, 1937		12.8
Reloaned to Municipalities to Feb. 1, 1937		5.4
Estimated Feb. 1, 1937 to April 30, 1937		0.9
Total Loans		19.1
Dominion Share of Relief (as above)		19.6
TOTAL DOMINION FUNDS		38.7
PROVINCIAL FUNDS		
From Provincial resources		4.6
Loans to Municipalities from Provincial resources		0.2
TOTAL PROVINCIAL FUNDS		4.8
MUNICIPAL FUNDS		
From Municipal resources		9.3
TOTAL UNEMPLOYMENT RELIEF EXPENDITURE		52.8

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UNEMPLOYMENT RELIEF—CLASSIFICATION

October 1, 1930 to December 31, 1936

(Thousands of dollars)

	Dominion Share	Provincial Share	Municipal Share	Total Expenditure
DIRECT RELIEF				
Urban (Greater Winnipeg, Brandon, Portage la Prairie)	7,920	7,920	8,800	24,640
Rural	870	980	1,200	3,050
Other	390	650	—	1,040
TOTAL DIRECT RELIEF	9,180	9,550	10,000	28,730
OTHER RELIEF				
Relief Works	6,390	5,990	2,650	15,030
Drought Area	280	350	550	1,180
Single Men	1,830	1,060	280	3,170
Rural Rehabilitation	160	240	170	570
TOTAL OTHER RELIEF	8,660	7,640	3,650	19,950
TOTAL—ALL RELIEF	17,840	17,190	13,650	48,680

NUMBER OF PERSONS ON RELIEF

		Direct Relief	Rural Rehabilitation	Single Men's Commission	Relief Works	Total
Average	1933	66,020	1,625	10,029	15	77,699
	1934	67,790	2,286	9,764	80	79,754
	1935	67,722	2,951	10,673	1,198	81,712
November	1932	54,785				
	1933	65,838	2,115	9,928	—	76,881
	1934	61,853	2,560	6,705	260	71,378
	1935	62,194	3,244	11,122	4,006	80,566
	1936	66,356	4,464	6,570	4,138	81,528

In spite of this burden Manitoba has succeeded in keeping the increase in its net liabilities to the public and the Dominion down to about \$2 millions a year during the period under discussion. In other words, the total increase in net debt for the whole period 1934-37 has only been about equal to the average increase in net liabilities for one year during the disastrous 1930-34 period. Another feature is that successive reductions of the interest charged on relief Treasury Bills have prevented the debt charges from rising proportionately.

Nevertheless, it is not difficult to understand dissatisfaction with a situation in which the province finds it impossible to supply its share of relief from its own resources in spite of strenuous efforts under adverse conditions.

Whether or not it is true that Manitoba cannot raise the necessary additional funds requires some examination of comparative burdens of taxation

and trends of expenditure. Considering the different tax revenues, we note that Manitoba's income and 2 per cent special income taxes are jointly by far the heaviest in Canada; that the railway, insurance, bank and other corporation taxes are as heavy as or heavier than any in Canada; that the gasoline tax at 7 cents is at the same rate as in other western provinces (but with particularly limited exemptions) and although one cent below the Maritimes is one cent above Ontario and Quebec. (It should, perhaps, be noted that owing to the physical conditions and the need for rapid transportation over long distances, a gasoline tax in the west weighs much more heavily on the average citizen than one in the east). On the other hand, the automobile license fee in Manitoba is below the average, although a factor to be considered is that Winnipeg also levies a licence fee of \$5. Succession duty rates are above the average, and miscellaneous taxes, such as those on amusements, are probably so, on balance. The land taxes have been reduced as noted previously, but in spite of this the proportion of Manitoba's revenue derived from taxation remains the highest of any province in Canada. It is more difficult to compare the tax basis of Manitoba and the Dominion, but a comparison can be made in respect of income tax (excluding the 2 per cent special income tax in Manitoba entirely). From 1926 to 1930 the provincial personal income tax was 37 per cent of the Dominion collections on personal incomes in Manitoba; from 1932 to 1936 the provincial collections equalled the Dominion collections. (In addition, the province was collecting approximately twice as much again through the 2 per cent Special Income Tax.)

On the side of expenditure, Manitoba's cuts in general government costs since the middle twenties are second only to those of Saskatchewan; her reductions on education, highway and public works maintenance, and in all capital expenditures, are greater than in any other province; the only categories in which expansion has occurred are public debt charges and social services (old age pensions and medical service). It should be remembered that Manitoba's population increased 100,000, or 16 per cent, between 1926 and 1936, and this naturally involved an increased liability for education, social services and other expenditures. It is our conclusion that Manitoba has done considerably more than most governments to meet its expenditures and obligations.

Nevertheless, the province has found that the steadily mounting liability for relief has reduced the possibilities of borrowing in the open market, in order to make necessary or desirable expenditures. That capital expenditures in connection with the highways and hospitals, and increased current expenditure for education, public health and highway maintenance (to mention certain main items only) will soon be essential cannot be doubted.

ASSISTANCE EXTENDED BY THE DOMINION GOVERNMENT:

During the years of depression the province has received aid from the Dominion Government on a large scale. On occasions this assistance has been

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afforded to enable the province to fulfil past commitments and avoid default. In this category is the Dominion Government guarantee of indemnification against loss, if any, resulting from the assumption by chartered banks of deposit liabilities of the Province of Manitoba Savings Office in February, 1932 (\$7,121,825 as of November 30, 1936). There is also a Dominion guarantee securing bank advances obtained for payment of obligations of the province (\$5,628,763 as of November 30, 1936). And, finally, the Dominion, by March, 1937, will have advanced some \$19 millions to finance the bulk of the province's share of relief costs and provide funds for relief loans to municipalities. A summary of the figures appears below:—

Dominion guarantee re Provincial Savings Office and covering funds to provide for payment of obligations.....	\$12,750,588
Dominion loans to assist in financing relief, (estimate to March 31, 1937)	19,000,000
	<hr/>
	\$31,750,588
Dominion Government's share of relief costs, (estimate to March 31, 1937)	20,000,000
	<hr/>
Total assistance in the form of loans, guarantees and Dominion relief expenditures (estimate as at March 31, 1937)	\$51,750,588
	<hr/>

SUMMARY

1. In the body of the report we have expressed the view that the lightening of taxation which took place during the 1927-30 period was not wise, and that greater advantage should have been taken of the good years to build up surpluses for bad times. We also made reference to the unduly large capital outlays of the 1929-32 fiscal years, and to the effect of pre-1922 capital expenditures on the financial position of the province.

2. We believe that during most of the period under review, and specifically during the last five years, the government of the province of Manitoba has made strong and commendable efforts to keep its budget balanced, and avoid unnecessary increases in debt, by imposing taxation on a scale at least as high as that of any other province in Canada, and by restricting expenditures as far as it was possible to go without curtailing services to an extent which would not have been in the public interest.*

*The opinion expressed above should be supplemented by the statement that details of departmental expenditures were not examined. A detailed survey, which would necessarily be of a lengthy character, might conceivably disclose the possibility of further economies in some directions. It is likely, however, that such an examination would also bring to light cases where expenditures are below a desirable minimum. We believe that on balance further economies are not feasible.

3. In spite of Manitoba's efforts, the percentage increase in its revenues during the period 1926-36 has been smaller than that of any other province except one. There are two reasons for this apparently poor showing, namely:—

(a) The fact that Manitoba taxation at the beginning of the period was somewhat higher than average provincial taxation gave less scope for increasing the returns, and

(b) The incomes of the people of Manitoba were more severely and continuously affected by the depression than were those of the people of most other provinces. The economic situation which produced this result is also the cause of continued high costs of relief.

4. Over the seven fiscal years 1931-37 (the depression years) the average budgetary result on current account was a deficit of about \$685,000. (Average contribution to sinking fund and debt retirement, approximately \$355,000). In the last few years there have been small surpluses after provision of \$4/500,000 annually for debt retirement. But for the whole period, relief charges not included in the above figures average some \$3,250,000 per annum.

5. We understand it to be the view of the Government that additional funds must be obtained for the preservation of the road system, for education and for mental institutions. While we do not feel qualified to estimate how large an amount is needed for additional expenditures of a character which cannot be postponed, we agree that some additional expenditures are inevitable, and we are not prepared to say that it is practical to increase revenues by further taxation.

6. There is no doubt that the substantial increases in debt incurred for relief purposes during the last six years have given cause for serious apprehension. The end of relief expenditures is not in sight, and there is undoubtedly a feeling that it is unwise for the province to continue to accumulate debt for this purpose.

7. Manitoba has been affected by the relatively low level of prices for agricultural products during the years 1930-35; by drought in some sections of the province; and by the indirect effects of drought and low prices further West. It has been fortunate in that the drought areas are predominantly situated outside the province. Notwithstanding this advantage and the efforts of its Government, which, as we have indicated, have been very considerable, the province is either not in a position to carry on, or is able to do so with assurance for no more than a short period, unless some unexpected favourable factor should appear. We do not regard it as our duty merely to examine whether the province can pay its way somehow or other in the next few months. It is rather for us to consider whether there is sufficient elasticity in Manitoba's economy to enable the province, under reasonably good govern-

ment, to conduct its affairs so that it may not become a burden upon the rest of the country, and, in particular, to become a burden of a kind which produces no permanent alleviation to the province itself.

8. The fact that Manitoba finds itself in the position described in this report indicates certain fundamental strains and weaknesses. And it seems to be the case that revenues are not adequate, or are not sufficiently elastic, to enable the province to bear the burdens which modern practices of government and the force of the depression have placed upon it. Manitoba does not stand alone in this respect. Other sections of the country are facing problems which may differ in degree from those of Manitoba but are not, in other respects, dissimilar.

The above report contains the facts as we see them. It seems desirable that we should go further and express our views on the various solutions or partial solutions which have been suggested during discussions of Manitoba's problems. A letter on this subject will be forwarded within the next day or so; in order to avoid delay, this report is being despatched immediately.

FOR BANK OF CANADA,

(Sgd.) G. F. TOWERS,

Governor.

February 12th, 1937.

The Hon. John Bracken,
Premier of Manitoba,
Winnipeg.

Dear Mr. Bracken,

With reference to the concluding remarks in our report, which was forwarded to you yesterday, we express below some opinions in regard to the various proposals which have been made for dealing with Manitoba's problems. These proposals are:—

1. Refunding of outstanding debt by the issuance of new securities guaranteed as to principal and interest by the Dominion government.

2. Refunding of outstanding debt by the issuance of new securities guaranteed only as to interest for a temporary period by the Dominion government.

3. Refunding of high coupon bonds by the issuance of new securities guaranteed by the Dominion government, the provincial subsidy being pledged as security for the guarantee.

4. The same procedure as outlined in 3, with the exception that assignment of the subsidy would constitute the bondholders' protection, and the Dominion guarantee would not be attached.

5. Appointment of a Royal Commission of Enquiry.

Naturally, it is not for us to express an opinion as to the Dominion government's point of view in regard to the proposals which involve their participation. Dealing with proposals 1-4 from the provincial point of view, however, we hold the opinion that none of them represents a solution of Manitoba's problems, including relief, and Nos. 2, 3 and 4 involve a severe blow to Manitoba's credit.

The repercussions from default are manifold. The borrower is barred from capital markets for a long period of years; and this represents a very serious handicap unless it is the conviction that Manitoba has reached its maximum in population, in development and in requirements for public facilities which, in the ordinary course of events, could legitimately be afforded. I believe it to be the case, also, that investors are reluctant to place their money in business enterprises or new development in a territory the government of which is in default. Indirect effects of this kind cannot be exactly appraised, but must certainly be taken into account.

As we state in the report, Manitoba does not stand alone in its difficulties, as other sections of the country are facing problems which may differ in degree but are not in other respects much dissimilar. We do not see any solution other than that which might be provided by a comprehensive enquiry into the financial powers and responsibilities of all our governing bodies, and we are therefore led to the unqualified recommendation that a Royal Commission should be appointed for this purpose. Pending the report of such a Commission, it would appear to us that in the case of the Province of Manitoba the Dominion government, in view of all the circumstances, would be justified in extending temporary financial aid.

Yours very truly,

(Sgd.) G. F. TOWERS,

Governor.

APPENDIX **MANITOBA PUBLIC FINANCES**

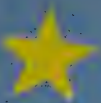
The following statistics have been compiled from the Public Accounts and from information furnished us by the Government Departments. Necessary adjustments have been made to place them on a comparable basis during the period under review.
(Millions of Dollars: Fiscal Years Ending April 30)

	1916*	1921*	1925	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937 Est.
ORDINARY REVENUE (Cash Basis)														
Fixed Revenue (a)	2.2	2.8	2.4	2.8	2.9	3.1	3.1	3.7	3.6	3.7	3.8	3.6	3.7	
Tax Revenue	0.9	3.7	4.3	4.0	3.9	4.4	4.1	5.2	5.2	4.1	7.2	7.2	7.3	
Other Ordinary Revenue (b)	1.5	3.1	4.0	4.1	4.4	4.7	5.2	4.9	3.8	3.1	3.4	2.7	3.4	
Total Ordinary Revenue	4.6	9.6	10.7	11.5	11.2	12.2	14.5	13.8	11.5	12.2	14.4	14.5	14.4	14.2+
ORDINARY EXPENDITURE (Cash Basis)														
Interest	1.3	3.3	4.0	3.9	3.9	4.0	4.3	4.4	5.0	5.7	5.9	5.9	5.9	
Exchange on Interest	0.1	—	—	—	—	—	—	—	0.3	0.3	0.1	—	—	
Amortisation and Sinking Fund	—	—	0.2	0.2	0.2	0.3	0.3	0.3	0.3	—	0.3	0.6	0.6	
Social Services (excluding Education)	0.7	1.9	1.6	1.9	1.9	2.6	3.1	3.0	2.9	2.5	2.5	2.7	2.7	
Other Ordinary Expenditure	2.8	5.0	4.8	4.8	5.3	5.8	6.1	6.8	5.2	5.7	5.0	4.8	5.0	
Total Ordinary Expenditure	4.8	10.3	10.6	10.8	11.3	12.6	13.8	14.5	14.6	14.2	13.8	14.0	14.1	14.0+
Net Adjustment for Accruals	0.1	0.5	—	—	0.4	0.4	0.5	0.1	0.6	—	0.6	0.3	0.2	0.2+
ORDINARY SURPLUS OR DEFICIT (as per Public Accounts) (1)	0.2	0.6	0.6	0.7	0.5	—	0.2	0.6	2.5	1.9	—	0.2	0.1	—+
INVESTMENTS IN OR WITHDRAWALS FROM CURRENT ASSETS (2)	1.0	1.5	1.8	0.6	0.8	0.3	0.8	3.4	3.9	0.8	1.0	0.7	0.1	
CAPITAL AND SPECIAL EXPENDITURES OR REPAYMENTS														
Fully Self-Supporting Loans and Utility Investments	0.2	2.2	0.9	0.2	1.3	1.4	1.7	2.3	3.3	0.2	0.2	0.1	2.3	0.5+
Fixed Assets (Highways and Public Works)	1.6	4.9	0.8	1.1	1.8	2.9	3.1	3.3	2.2	0.2	0.1	—	0.1	
Other Loans and Investments (Agricultural Credit etc.)	1.6	6.0	0.1	—	0.1	0.6	0.4	0.8	3.8 (e)	1.2	0.5	0.6	0.4	
Net of Discount, Exchange, Capital Revenue, etc.	—	—	0.1	0.2	0.1	0.2	0.1	4.8 (d)	0.8	1.8	0.3	0.2	—	
Relief—Provincial Expenditure plus Loans to Municipalities	—	—	—	—	—	—	—	—	0.6	3.3	3.2	2.6	4.5	4.7+
Total Capital and Special Expenditure (3)	3.3	13.1	1.7	1.5	2.9	5.0	5.3	2.2	13.4	6.6	2.3	3.6	1.9	4.2+
INCREASE OR DECREASE IN GROSS DEBT i.e. sum of (1) + (2) + (3)	2.5	12.2	0.7	1.4	2.6	5.3	5.9	6.2	12.0	7.7	1.3	4.1	1.7	4.2+
Increase or Decrease in Debt Retirement Funds	0.6	0.3	1.4	1.1	1.7	1.7	1.5	0.6	0.2	0.8	0.7	1.7	0.8	1.5+
INCREASE OR DECREASE IN DEBT OUTSTANDING	1.9	11.9	2.1	0.3	0.9	3.6	4.4	5.6	11.8	6.9	0.6	2.4	2.5	2.7+
TOTAL DEBT OUTSTANDING	30.	64.	71.	72.	73.	76.	81.	86.	98.	105.	105.	108.	110.	113. +
Active Assets (e)	19.	32.	33.	35.	35.	36.	39.	44.	44.	44.	42.	43.	40.	40. +
TOTAL NET DEBT (b)	11.	32.	38.	37.	38.	40.	42.	42.	54.	61.	63.	65.	70.	73. +
Of Which: Fixed Assets	13.	25.	31.	32.	34.	36.	40.	43.	45.	45.	45.	45.	45.	45. +
Portion of "Other Loans and Investments" which bore full interest during year	4.	14.	15.	14.	17.	11.	15.	9.	7.	5.	8.	12.	8.	10. +

*Fiscal year ending November 30.

- Fixed Revenue consists of the Dominion subsidy and interest received from fully self-supporting loans, utility investments and the School Lands Fund.
- Other Ordinary Revenue includes earnings from various business enterprises and from fixed licences and fees which vary in yield with the business cycle.
- Includes Manitoba Farm Loans Association bonds guaranteed by the Province and held by the Provincial Savings Office, for which direct provincial obligations were substituted at the time of closure.
- Includes Deferred Subsidy of \$4.6 million received from the Dominion and here treated as capital revenue. The Province actually received \$4,823,000 but took \$239,000 as interest into ordinary revenue.
- Consists of Current Assets, Fully Self-Supporting Loans and Utility Investments, and the School Lands Fund Investments.
- As the table indicates this is arrived at by deducting from the Gross Debt all Active Assets. Fully Self-Supporting Loans and Utility Investments. The following deductions have also been made: all sinking funds which are carried in the balance sheet as a trust account (a substantial proportion of which have been contributed by the self-supporting utilities which have not been correspondingly written down); and the School Lands Fund Investments for which the Province incurred no direct liability.

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MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part VIII

Manitoba's Case---Summary and Recommendations

WINNIPEG, MANITOBA

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PART VIII

MANITOBA'S CASE—SUMMARY AND RECOMMENDATIONS*

One of the most important problems facing the Canadian people today is that of revising the present Dominion-Provincial relationship under our Federal system of government in such a manner as will permit it to function efficiently and equitably in the best interests of the Canadian people as a whole.

There has been placed upon this Commission the responsibility of inquiring into that relationship. You have been instructed, among other things, to "examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments," and to "consider and report upon the facts disclosed by your investigations."

In approaching this problem the first duty of those who appear before you, it has seemed to us, is to set out what the present relationship is. This the Attorney-General has attempted in the very full statement already given you. This statement seeks to sum up and to clarify the present position, and to provide a basis for our presentation as well as a starting point for your work.

DOMINION-PROVINCIAL RELATIONS

- (1) What has been shown to be the division of responsibilities between the Dominion and the provinces as determined by our constitution?
- (2) What is the division of revenue sources between the Dominion and the provinces as fixed by the constitution?
- (3) What is the effect of judicial interpretations of the different features of the British North America Act on the division of responsibilities and revenue sources between the Dominion and the provinces?

The answers to these questions have been set forth in very considerable detail in Part II of this submission. For all practical purposes they may be summarized as follows:

- (1) *With regard to responsibilities, the Constitution provides that:*
 1. The Dominion shall have general jurisdiction in "all matters of national importance," including twenty-nine different classes of subjects specifically named, and the residuary powers in all matters "not assigned exclusively to the province."

*This submission presented by the Hon. John Bracken.

2. The provinces shall have exclusive jurisdiction in some sixteen classes of subjects, including all matters of a "merely local or private nature in the provinces," but the provinces shall not have jurisdiction beyond the specific powers given.
 3. There are some matters over which the powers of both governments overlap.
- (2) *With respect to revenues, the Constitution provides that:*
1. The taxation powers of the Dominion are unlimited, no fields of taxation being closed to it.
 2. The taxation powers of the provinces are limited to direct taxation.
- (3) *With respect to the judicial interpretations of the British North America Act, the practical effect, in actual administration, is as follows:*
1. The responsibilities of the Dominion have been limited within what, we submit, was originally intended, while its taxation powers remain unlimited.
 2. The responsibilities of the provincial governments are in fact increased beyond what, we submit, was intended but their taxation powers still remain limited to direct taxation.
 3. The Dominion government, which was intended to have, and which should have, all the general residuary powers not specifically allocated to the provinces, finds by interpretation of the constitution that its hands are tied with respect to certain things which it desires to do.
 4. The provincial governments, which were intended to have jurisdiction only over matters of a "merely local or private nature" find themselves in the paradoxical position of having limited taxing powers, and at the same time find left upon their doorsteps unexpected and heavy responsibilities which some of them find it impossible to bear;
 5. The Dominion government is prevented from assuming certain responsibilities for the social security of its citizens, while some of the provinces are being forced into bankruptcy because they cannot raise the necessary revenue to meet the cost of these and other responsibilities now placed upon them;
 6. On the whole the result is that the nation finds its hands tied while unsolved problems pile up and rapidly lead to grievances; at the same time new problems arise which cannot even be tackled because of legal limitations on the government that might solve them, and economic limitations on the provincial and municipal governments now held responsible for solving them.

MANITOBA'S CASE—SUMMARY AND RECOMMENDATIONS

These are some of the results of the scheme of Confederation as it has been interpreted and as it is actually working out. This is the situation you have been asked to examine. At a later stage in this presentation we shall advance certain suggestions for your consideration as to how in our judgment this situation can best be met.

CONDITIONS TODAY

Not only has this Commission been asked to examine the constitutional division of responsibilities and revenue sources of 1867, but also the results of that division in each of the provinces of Canada.

We have shown the unfavourable effects of certain Dominion policies upon this part of Canada; we have pointed out in considerable detail the decline in income and its effects; we have likewise dealt with the financial position of the municipalities and school districts and of the provincial government.

After sixty-seven years of association with the other provinces and the Dominion in Confederation, what, in brief has been shown to be the economic condition of Manitoba today?

While we shall reserve a more detailed answer to this question to a later part of this submission, we wish at the moment to summarize the position in which the people of Manitoba, including their governments—provincial and municipal—and their school districts, find themselves. This position may be briefly stated as follows:

- (1) Individuals in large numbers find themselves with decreased incomes, an increased load of debt and an accumulation of arrears of taxes;
- (2) Many municipal governments, as a result of declining revenues and the increased burden of social services, accompanied by the distressed condition of individual taxpayers, find themselves with unbalanced budgets, unable to meet their debt charges in full, unable to provide an adequate standard of the social services for which they have been made responsible, and unable, more particularly, to finance the increased requirements for certain of these services during recent years;
- (3) The provincial government, while suffering a heavy decline in revenue, has been called upon to meet increased expenditures for relief and social services, and rapidly increasing debt charges upon the moneys which it has been forced to borrow for relief purposes. In spite of the most drastic economies, involving the partial starvation of many essential public services, and notwithstanding unprecedented increases in taxation to meet even the minimum demands of these services, the provincial government has found itself unable

to maintain a balanced budget, except on so-called current account, and has been forced to borrow practically the whole amount of the requirements for unemployment relief during the last seven years;

- (4) The school districts, which derive their main support from the municipalities but receive some assistance through statutory and other grants from the provincial government, have been forced to carry on with greatly reduced assistance from the municipalities. As a result, rural school education has been maintained only by the unexampled sacrifices of teachers and taxpayers alike. The drastic reductions of teachers' salaries, consolidation in many cases of the pupils of two or more schools under one teacher, special grants to the more needy schools from the provincial treasury, and establishment of correspondence courses by the provincial government in order to meet the needs of numerous isolated cases, are only some of the expedients which sheer necessity has forced upon rural education.
- (5) General conditions in Manitoba at the moment are better than at any time during the past seven years, due to higher than average prices for primary products during the last two years and to more than average crops this year, except along our western boundary. While increased returns have temporarily eased the situation, they furnish no excuse for further delay in making certain fundamental adjustments which are necessary in our economic and governmental relationships, if the federal system as we have it is not to be subjected to strains which will further weaken the structure of Confederation.

ECONOMIC AND SOCIAL DEVELOPMENTS

In your instructions it is noteworthy that you have been asked to examine not only the constitutional allocation of responsibilities and revenues, and the past results of such allocation, but you have been asked to do so "in the light of the economic and social developments of the last seventy years."

You will therefore wish to inquire, as we have sought diligently to find out, what light the political, economic and social developments of the last seventy years have shed upon the problems of today? Our study indicates that while the history of the early years sheds but little light upon present-day problems, the mid-Confederation period furnished more, the last three decades a very great deal, and the last ten years a veritable flood.

We have already shown that the weaknesses in the financial set-up which came into existence with Confederation in 1867 have become only too evident with the growth in social consciousness of our people and the resulting demands upon governments, more particularly after the first decade of this century.

MANITOBA'S CASE—SUMMARY AND RECOMMENDATIONS

We have shown that with the precipitous decline in income of both individuals and governments in recent years, and the great increase in governmental requirements for social services, including unemployment and agricultural relief, the problems of individuals and governments and municipalities and school districts have been kept within manageable proportions only by sacrifices of an unprecedented character on the part of all our citizens—sacrifices which it is impossible to expect them to continue to make.

The last quarter century with its termination in the depression has set out in bold relief the vulnerability of our western economy and some of the weaknesses of our governmental set-up as these have developed since 1867. If we have come through the last decade of this period with any credit to ourselves, the thanks are largely due to the rank and file of our people. While they have been critical of the conditions that brought about their economic difficulties, yet they have kept their feet on the ground, and with a maximum of economy and patience and sacrifice, have met each problem as it came along, including six long years of the most serious depression any Canadian community, with the exception of Saskatchewan, has ever been called upon to face.

There is probably no one who will deny that the people of western Canada have stood up under the tremendous handicaps of low prices, poor crops, high taxes, reduced services, annual losses of income and periods of unemployment, with a courage and fortitude seldom before witnessed. If, in the course of six or seven years of continued repetition of some or all of these conditions, considerable numbers of them have come to the conclusion that their difficulties have not been adequately met by our society, including our institutions of government, that result is scarcely to be wondered at. Under the stress and strain of the last seven years, in the minds of some, confidence in the ability of governments to meet these conditions wisely and justly has been shaken. While the average citizen does not appreciate the difficulties involved in adjusting the set-up of modern civilization to meet the demands of a major crisis, he nevertheless fully appreciates the effect of the inequities that from time to time thrust themselves upon him, inequities which when long continued develop into grievances and these in turn, unless redressed, inevitably lead to extreme types of radical thinking.

From these developments western Canada in recent years has not been free. This Commission appears late upon the scene. The task it faces is therefore the greater because not only have economic conditions to be analyzed, and the governmental structure to be revised, but the depression psychology of large numbers of people is a problem which has to be met. This triple challenge which faces you and us will be successfully met only to the degree by which the findings of this Commission and the subsequent policies of governments generally meet the demands of a greater measure of economic and social justice. To those who have borne the brunt of a heavy and inequitable burden during the hard times of recent years half-way measures of redress will not be

adequate. In our judgment the institutions of government in Canada, and the members of this Commission, are facing a problem which, in the interests of Canadian unity, they must not fail to solve.

1867 AND AFTER

The suggestion that this section of the Dominion was brought into Confederation more in the interest of Canada than in the interest of its own future, it will profit us little to discuss now. The idea in the minds of some that the advantages to Manitoba from joining Confederation were more than offset by the disabilities may be passed over for the moment. Whatever course a different policy would have made possible, it is of little consequence to speculate on such things now. We are in Confederation. What has been done has been done. What remains to be done is what matters. The problem now is to remedy the weaknesses that exist in the basic structure that has been erected and to build a superstructure as wisely as it can be built.

You have been delegated to diagnose certain aspects of this problem "in the light of the economic and social developments of the last seventy years." In this connection we would point out that certain of these developments now constitute disabilities upon this part of Canada. If, in your diagnosis of the problem, it is made to appear that these disabilities are of some magnitude, let it not be thought that the advantages of Confederation are being questioned. Quite the contrary is the case. It is our view that Confederation has advantages which we cannot afford to lose and which it is the aim and purpose of the great majority of western Canadians to help develop. But it is our view also that if disabilities of some magnitude are present, it is in the interest of the nation that they be removed or adjusted before discontent upon a major scale develops. And it is our view further that it is to the advantage of the community at large that any such disabilities be brought under the most careful scrutiny and diagnosed and understood, in order that suitable remedies may be determined, and that these remedies may find acceptance by the Canadian people and be adopted by their representatives in Parliament.

In presenting our views on the effects of "the economic and social developments of the last seventy years" upon this portion of Canada, which we propose to do in some detail, we do not wish it to be understood that failure to discuss the advantages of the West does not mean that there are none. It is now very generally known that much of our soil is rich, our land prices low, the quality of our agricultural products high, the climate healthful and the seasonal distribution of precipitation, if not the total amount, favourable. Our resources of mines and forests and streams are matters of common knowledge, our transportation and marketing facilities well developed, and our social and educational facilities well organized.

MANITOBA'S CASE—SUMMARY AND RECOMMENDATIONS

The advantages of our economy are not discussed in this presentation, because they have been frequently stated and often emphasized in the past and are already well understood. The disabilities are discussed because they are such that they are now limiting our maximum development, and because if the Canadian people are to develop sound constructive national policies they can only do so to the extent that each part thoroughly understands the disabilities, as well as the advantages, of every other part of the nation.

With these observations in mind, let us then proceed to a review of certain of the political, economic conditions which now constitute disabilities upon this section of Canada.

FOUR GROUPS OF DISABILITIES

The disabilities that have developed during past years and that are now resting upon this section of Canada fall naturally into four groups:

- 1 Disabilities arising from the Confederation set-up and judicial interpretations of it:
- 2 Disabilities arising from unfavourable Federal policies;
- 3 Disabilities arising from the incidence of certain extraneous factors.
- 4 Disabilities arising from certain inherent conditions.

Those disabilities which are the result directly or indirectly of the constitutional set-up are matters of immediate concern to this Commission in the discharge of its duties. Those which arise from other circumstances not directly or indirectly related to the division of responsibilities under Confederation are, in some degree, beyond the power of our system of government to remedy; nevertheless, all of them are of concern to this Commission and to the people of Canada, not because they can be altered by the government of Canada, but because if the government of Canada is to serve its citizens with equity, cognizance must be taken of the major disabilities of every section of the State in order that the policies determined upon may be fair and just, and such as will promote harmony and unity in the State.

1.—DISABILITIES ARISING FROM THE CONFEDERATION SET-UP AND JUDICIAL INTERPRETATIONS OF IT

The disabilities arising from the Confederation set-up and the judicial interpretations of it may be discussed under four headings:

- A.—The failure of the Act of Confederation, as interpreted, to place upon the Dominion government with its unlimited tax base commensurate responsibilities for the welfare of its citizens;
- B.—The burden to the provinces of the cost of social services not contemplated sixty-seven years ago, but now by practice and judicial interpretation assigned to the provinces;
- C.—The inadequacy of the tax base allotted to the provinces to meet the responsibilities now placed upon them;
- D.—The constitutional inability of the Dominion government to assume and discharge its proper share of the new responsibilities now generally recognized as belonging to central governments;

Unemployment relief;

- E.—The cost of overlapping responsibilities and services.

MANITOBA'S CASE—SUMMARY AND RECOMMENDATIONS

A.—THE FAILURE OF THE ACT OF CONFEDERATION AS INTERPRETED TO PLACE UPON THE DOMINION GOVERNMENT WITH ITS UNLIMITED TAX BASE, COMMENSURATE RESPONSIBILITIES FOR THE WELFARE OF ITS CITIZENS

In Canada, as contrasted with other countries, the responsibility for many social services has gradually been placed almost wholly on the provinces rather than on the Dominion. In 1870, when Manitoba entered Confederation, there was, for example, no system of pensions to widowed mothers for child welfare, no government construction of highways, no old age pensions and no unemployment relief. None of these was contemplated in 1867 by the Fathers of Confederation as the responsibility of the provinces. But in 1937 all of these, and others as well, are looked upon as essential government services and are interpreted to be constitutional responsibilities of the provincial governments.

The result of this trend in the case of Manitoba, where the "general expenses of government" made up more than two-thirds of the total expenditures in 1885 and all other items took less than one-third, is that the expenditures for other than general purposes of government increased from 32 per cent of the total in 1875 to 92 per cent in 1936. On the other hand, while the expenditures for these new services were increasing so fast, the annual subsidy, which was the chief source of revenue given the province at the time it entered Confederation, and which made up 88 per cent of the province's total expenditure in 1875, had dropped by 1936 to 12 $\frac{1}{4}$ per cent.

Thus Manitoba and the other provinces of Canada have found themselves in a position as to financial responsibility in which, we contend, it was never intended they should be placed, in which it is unwise they should continue to remain, in which many find it difficult to carry on and which most of them consider inequitable and contrary to the best interests of the nation. Yet, aside from the services for returned soldiers, the Dominion government has accepted no major responsibility for any important social service except Old Age Pensions, and in this case it has not assumed the whole cost, one-quarter still remaining a charge upon the provinces.

We submit that the interpretation of the British North America Act which places upon the provinces the financial responsibilities for such essential public services is the primary cause of the break-down of municipal finances in parts of Manitoba, one of the chief causes of provincial deficits here and elsewhere, and a fundamental weakness, which must be remedied at once if Canada is to carry on as a unified nation.

B.—THE BURDEN TO THE PROVINCES OF THE COST OF SOCIAL SERVICES NOT CONTEMPLATED SEVENTY YEARS AGO BUT NOW BY PRACTICE AND JUDICIAL INTERPRETATION ASSIGNED TO THE PROVINCES

It has been shown that most of the so-called social services now costing all the provinces so much money were not even contemplated as government responsibilities in 1867; also that no one in 1867 had any thought that services of this costly character should become the responsibility of the weaker pro-

vincial governments rather than of the stronger Dominion government; and it has been shown, as well, that the growth in total expenditures of the government of Manitoba is not to be found in the general expenses of government.

From 1881 to 1936 the per capita expenditures of the Manitoba government for purely governmental purposes practically remained stationary. They increased only six cents during that long period, or from \$1.60 in 1881 to \$1.66 in 1936.

The causes of the large increase in total expenditure are to be found in the growing demands of education, in the growth of expenditures for social services, in the expenditures for public works, including highways, in expenditures for building institutions for the care and training of all classes of those who had become wards of the state, and in the increase in interest on the public debt.

During the period from 1881 to 1936 when the population multiplied eleven times, the general expenses of government increased from \$100,000 to \$1,200,000, or but very little faster than the population; but the cost of education increased from \$24,000 to \$1,700,000, or six times as fast as the population, while the cost of public welfare services increased from \$6,500 to \$2,600,000, or more than thirty times as fast as the population.

We submit that the inadequacy and unfitness of the financial plan of Confederation which in its working out has imposed this heavy charge on certain of the weaker provinces if not remedied, will lead directly toward a disunited and a disaffected Canada, and away from that happy condition of national unity which was one of the chief purposes Confederation was intended to achieve. We submit that the train of events which left these burdens upon the doorsteps of the provinces is not a sufficient justification for an enlightened state leaving them there.

C.—INADEQUACY OF THE TAX BASE ALLOTTED TO THE PROVINCES TO MEET THE RESPONSIBILITIES NOW PLACED UPON THEM

It has been shown that while the per capita cost of general expenditures of the government increased proportionately no more than the population, the cost of education increased six times as fast as the population and the cost of social services increased thirty times as fast as the population since 1881. Thus the "flagrant error" of the constitution, to use Mr. Rogers' apt phrase, is clearly evident. Increases in the subsidy to the provinces were by the constitution to be based directly on increases in population, but unfortunately increases in the costs of government were determined not by increases in population but by public welfare services which increased, some six times as fast, and some thirty times as fast, as the population.

The provision intended to be made at Confederation, according to Sir A. T. Galt, was one by which the provinces were to be given "an insignificant amount of work" to be "as little costly as possible" because "an expensive kind of machinery" would "affront the intelligence of the people." What was

MANITOBA'S CASE—SUMMARY AND RECOMMENDATIONS

clearly the intention at the time of Confederation has turned out to be exactly the opposite, the provinces now finding themselves with a most extensive amount of work which they find very costly and expensive, and which, we submit, is not the allocation "the intelligence of the people" would now make.

It will be readily admitted that there have been and will continue to be, single years and groups of years when western provincial economies can maintain reasonable standards of public service. On the other hand, there will be single years and groups of years when certain provincial governments cannot by any stretching of their purse strings meet the responsibilities now imposed upon them by the constitution as now interpreted. An extreme illustration is one outside our border—the southwestern portion of the province of Saskatchewan. No observant student of governmental affairs today can, with any justification, say that that province, after half a dozen years of drought over one-third of its settled area, and last year's drought over three-quarters of it, can, without outside assistance, maintain a normal Canadian standard of all the public services for which the provinces are held to be responsible.

What can be said of that part of Saskatchewan today can be said also of considerable areas in each of the other prairie provinces in which the situation, if not quite as bad, approaches in severity that of the territory mentioned. For example, how can it be expected that the five drought area municipalities in southwestern Manitoba and municipalities in a similar economic condition in Alberta can maintain any reasonable Canadian standard of the social services allotted to them when for six years in succession crop failures have been the rule and not the exception?

The best evidence as to whether the provinces should continue to be held responsible for financing these services is the budget position of the provinces as compared with that of the Dominion today. The Dominion, even with its much higher scale of expenditures and even after restoring its salary cuts, is now approaching a balanced budget, while the majority of the provinces with their much more modest expenditures and in some cases at least no restoration of severe cuts in salaries are still carrying huge annual deficits. If this is permitted to continue it cannot result other than in the breakdown of the financial structure of scores of additional municipalities and even of some provinces.

The position which we take with respect to the taxation field now allotted to the provinces may be stated in two brief sentences. First, the responsibilities placed upon the provinces by the constitution as now interpreted are too heavy and too inequitable as a matter of practical governmental administration to be borne on the taxation base allotted to them. Second, the remedy for this situation is not to extend the taxation base now allotted to the provinces, but to have the stronger central government assume the responsibility for a reasonable share or a minimum standard of public services throughout all the provinces.

If further support of the latter contention is needed it may be found in the report of the Bank of Canada on Manitoba's finances, which reads in part as follows: "... we are not prepared to say that it is practical to increase revenues by further taxation."

Anything short of the assumption of greater responsibilities by the Dominion will leave those provinces, which have within their borders the unsheltered industries, in a condition of economic inferiority which we submit is not a healthy state for any section of a nation. If certain provinces must accept unfavourable national policies determined by majorities who live elsewhere, and are at the same time denied assurance of a minimum standard of public service, the prospect of Canada becoming a nation truly united by anything more than legal bonds will be unnecessarily postponed.

D.—THE CONSTITUTIONAL INABILITY OF THE DOMINION GOVERNMENT TO ASSUME AND DISCHARGE ITS PROPER SHARE OF THE NEW RESPONSIBILITIES NOW GENERALLY RECOGNIZED AS BELONGING TO CENTRAL GOVERNMENTS

It is important to note that while a heavy load of costs was gradually being placed upon the provinces, three other things were happening; first, the subsidy given by the Dominion was providing a much smaller and smaller percentage of the revenue of provincial governments; and second, the Dominion revenue from customs and excise which was given to the Dominion by the provinces at Confederation was increasing much more rapidly than the subsidy payments to the provinces, while at the same time the Dominion had entered the field of direct taxation; and third, new social responsibilities appeared for which the Dominion was not legally responsible and which some of the provinces could not finance.

In 1875, as has been pointed out, the subsidy payments to Manitoba provided 88 per cent of the total expenditures of the province. In 1881 they were $56\frac{1}{2}$ per cent, in 1891, $73\frac{3}{4}$ per cent. The percentage became less and less throughout the years until in 1936 they made up only $12\frac{1}{4}$ per cent of the total.

During this period when the subsidy as a percentage of Manitoba's revenues dropped so rapidly, the actual subsidy payments to all the provinces increased from \$3,430,846 in 1880 to \$16,993,900 in 1936. They multiplied by five times. In the same period the Dominion revenues from customs and excise increased from \$18,303,771 in 1880 to an average of \$214,000,000 in the five years prior to 1931. They multiplied by almost twelve times, or nearly two and one-half times as fast as the subsidies paid to the provinces. If the much lower revenues from customs and excise for the average of the five years after 1930, viz., \$138,000,000, are taken, it will be seen that even these multiplied almost eight times or one and one-half times as fast as the subsidy payments.

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We submit that both the constantly decreasing proportion that the subsidies bear to the total provincial revenues, and the constantly increasing proportion that the Dominion revenues from customs and excise bear to the subsidies paid to the provinces, while not conclusive in themselves, are very substantial arguments for assumption by the Dominion of a larger share of the cost of public welfare services.

UNEMPLOYMENT RELIEF

As to the new services that in recent years governments have found it necessary to undertake, the most important from the standpoint of cost is unemployment relief. Since 1930 the numbers on relief in Manitoba for the month of November in each year are as follows:

Month of November	Individuals
1930.....	13,313
1931.....	45,638
1932.....	54,805
1933.....	76,781
1934.....	71,378
1935.....	80,566
1936.....	83,504
1937 (estimate only).....	62,000

(High point, March, 1934, 105,537)

In the Manitoba budget this item appeared only very occasionally and in small amounts prior to the year 1930. From that year up to April 30, 1937, the total cost of relief and relief works in Manitoba was \$53,278,775.98. The total cost was divided as follows:

The cost to the Dominion.....	\$19,602,697.64
The cost to the Province.....	18,550,572.12
The cost to the Municipalities.....	15,125,506.22

It has already been shown elsewhere that by far the greater part of these expenditures has been met by borrowing. The result is, at April 30, 1937, that the province owed on its relief debt \$23,736,570.51, covering both its own costs and moneys borrowed for relending to municipalities; the municipalities owe considerable sums to other creditors on their relief debts and, at April 30, 1937, they owed to the provincial government on their account the sum of \$4,608,255.74, practically all of which was borrowed by the province from the Dominion.

The figures quoted here, as well as those quoted elsewhere for other services, show the rapid increase in cost to the provincial government for services for which, as responsibilities of provincial governments, the Fathers of Confederation made no financial provision. These figures in themselves are a sufficient condemnation of the policy of expecting either the municipalities, or the provinces, or both, to meet any considerable share of the cost of such services. A crisis such as that of the last seven years gives particular emphasis to this argument.

But the figures do not tell the whole story. In the case of some seven or more suburban municipalities adjoining Winnipeg, a considerable portion of the burden of relief has been met by the municipalities defaulting in the interest payments on their bonds and using the money thus "saved" to pay their share of relief.

With regard to other measures of social security such as unemployment insurance and health insurance, it need only be noted here that the constitutional responsibility for these also now rests upon the provinces. The Dominion, by judicial interpretations of the constitution, has been denied the right to deal with them. Obviously this situation cannot be continued unless we are to admit that we are incapable of adjusting our machinery of government to accomplish necessary reforms approved by parliament.

We submit that on every ground of equity and sound administration the financially strong central government ought to be given power to provide those social services which must now be recognized as national responsibilities, and that the smaller political units should be relieved of a great part of the responsibilities now resting upon them. The argument is all the stronger when it is remembered that it is the central government which has jurisdiction over immigration, monetary and trade policies, all of which determine as far as it can be determined by state action, the prosperity, or lack of it, of the citizens of Canada, including both the taxpayers who pay the relief and the unemployed who receive it.

At a later stage in this presentation a plan of rearrangement of governmental responsibilities will be presented. Therein an attempt has been made to work out an equitable method whereby the Dominion government may assume responsibilities more commensurate with the broad privileges and powers it possesses in our federal system.

E.—THE COST OF OVERLAPPING RESPONSIBILITIES AND SERVICES

In a Federal system of government there is necessarily a division of responsibilities and services between the different governments affected—in the case of Canada, between the Dominion and provincial governments. If the division is clearly stated there should be a minimum of overlapping. If, as in the case of Canada, certain responsibilities are shared, there is necessarily some overlapping. We feel, however, that where double jurisdiction does exist, mutual arrangements should continue to be made so that all unnecessary overlapping be removed and the administration of such services be made as efficient and as economical as possible.

In Canada there has been overlapping in the administration of law and order, in tax collection, in incorporation and administration of companies, in certain commercial activities, in the activities relating to agriculture, public health, natural resources, and in other fields of governmental services.

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For more than a dozen years we have co-operated with three different Federal administrations to try to eliminate unnecessary duplication and, at the same time, to maintain efficient, economical service. Some progress has been made. The two police organizations of the province and the Dominion have been amalgamated at a saving to the province of \$150,000 a year. The two income tax administrations of the province and the Dominion are now being amalgamated, with small economies to us, and we hope more effective service. In the Departments of Agriculture and Health, and Natural Resources, overlapping has been reduced, if not altogether eliminated. In the commercial field of farm loans, where duplication of organization exists, discussions are under way looking toward amalgamation, but as yet little progress has been made.

In the field of company incorporation and supervision there is need for both clarification of zones of responsibility and for lessening of duplication. Much work has been done and some progress has been made, but much is yet required to be done.

In the field of scientific research there is some overlapping, and there is some failure to adequately utilize existing organizations. There are trained men in our universities who lack adequate financial assistance for research work. There is a National Research Council at Ottawa. There is some co-operation and an excellent spirit existing between the universities and the Council. But as long as the research work of our universities lacks the necessary financial support, the fullest use of the university talent is not obtained. A furtherance of the trend toward granting of assistance by the federal authorities to the universities under conditions to be laid down by the Dominion and under the supervision and co-operation of the Dominion or the National Research Council is much to be desired.

2.—DISABILITIES ARISING FROM UNFAVOURABLE DOMINION POLICIES

Having dealt with the major disabilities arising from the Confederation set-up, we wish now to discuss those arising from certain unfavourable Dominion policies. Among these are:

- A. Unfavourable Effects of Dominion Land Settlement Policy.
- B. Unfavourable Effects of Dominion Tariff Policy.
- C. Unfavourable Effects of Dominion Monetary Policy.

A.—UNFAVOURABLE EFFECTS OF DOMINION LAND SETTLEMENT POLICY

When Manitoba entered Confederation in 1867, the Dominion government kept control of the land and other resources within the province. As a result, the settlement of the land, the plans for the development of the mineral and forest resources, the building of railways and the stimulation of immigration all came directly under the control and direction of the Dominion government. We do not suggest that the governments in power in Ottawa during

the first sixty years of Confederation were entirely misguided in pursuing the policies which they considered to be in the national interest; but we do suggest that those policies were not framed with sufficient consideration for the ultimate consequences upon some of the provinces, and certain of them have resulted in very considerable handicaps for those now living in the prairie provinces.

The building of the first railroad system in western Canada was predicated, at the time, upon three purposes. These were (1) Imperial defence; (2) National unity; and, (3) the development of the West.

The first two of these demanded speedy action and the resulting haste of this and other railway construction left certain grave maladjustments in the economy of the prairie provinces. The later railways were built, some of them into new areas for settlement and some as competing systems, but all opened up for immediate settlement new areas of land before any compact settlement had taken place in the areas already opened up.

Having committed themselves by their agreement with British Columbia to build a transcontinental line, the Dominion government was faced with the necessity of finding the means of financing construction and of making the line profitable after it had been built. The construction of railways was partly financed by extensive gifts of land from the public domain. These lands were hurriedly opened up for settlement by sale. Ill-considered and hasty settlement on a tremendous scale was thus resorted to in order to find revenue for the railroads.

If the railways had not been projected in this manner colonization and settlement would have expanded in a more compact and normal way. The result was a widely scattered population which demanded relatively high expenditures per capita by local and provincial governments in order to provide the various services required by the people.

Settlement of Unsuitable Areas.—Large tracts of land were thrown open for settlement, some of which were unsuitable for agricultural use. Suggestions on the suitability of certain areas for agriculture by Palliser and Hind were ignored, and settlement permitted in unfavourable climatic zones. The land grants to the railroads made settlement more extensive and scattered by holding large areas of land near the railroad line out of use and by forcing homesteaders, looking for free land, to settle in more distant areas. Extravagant hopes held out for early railway facilities at points distant from existing lines, hopes which were often not discouraged from official sources, also induced scattered settlement.

Familiar examples of unwise settlement are not far to seek. The opening up for grain growing purposes of the short grass grazing land in southeastern Alberta and southwestern Saskatchewan is the first classic example. The throwing open for settlement of smaller unsuitable areas in different parts

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of Manitoba resulted in similar but less conspicuous failures. The results are now shown in the necessity for resettlement elsewhere at extraordinary costs to municipalities and governments and great hardships and distress to the unfortunate settlers affected.

The opening up for settlement of large tracts of land wholly unsuitable for farming of any kind was not the only mistake in settlement policy. In certain areas where farming could be carried on successfully only on a farm unit of a certain minimum size, smaller farm units of settlement were established. As a consequence, the history of the areas in which such a policy prevailed was that eventually a considerable number of original settlers were forced, after investing their time and money, to abandon their holdings.

The result of these errors in settlement policy was that eventually facilities such as schools, which had been built on prospects of a larger population, were left to be paid for on a basis of a smaller one. Moreover, population which could be cared for within a smaller area, if settled properly in the first place, was left spread over a wider area with consequent increases in the cost of road maintenance, etc. Governmental costs of both municipal and provincial governments, and of course in consequence taxes also, were greatly increased. The taxpayers in the end had to pay more for what should have cost less if a more considered settlement policy had been followed.

Again, as an element in national policy, at a time when mechanization had not yet reached its present high stage in development, the Dominion government had admitted to western Canada, to provide common labour in railway and building construction, large numbers of workmen, unskilled in either the trades, or in any real sense, in agriculture. These men who were often without sufficient capital to make an adequate start in agriculture, willingly served their new country in the railway and building construction work incidental to the opening up of a new territory; but when this construction work ceased they found it difficult to fit into the economic life of their adopted country.

It is not entirely relevant here but it is an interesting coincidence that between the years 1911 and 1936 our population increased from 461,394 to 711,216, or by 249,822. At the same time the natural increase, namely, the number of live births less the number of deaths, amounted to 250,774. It thus appears that if we had retained our own people, our population would have been almost exactly the same as if no immigration into the province had taken place.

It may be observed that people migrate to improve their economic and social position. Between the years 1931 and 1936 Manitoba's population increased by 26,911; or less by 11,077 than the natural increase of 37,988.

It may be further observed that if there is any urgency for increasing the population of western Canada by the resumption of immigration from overseas, there is, in our opinion, much greater urgency for reconstituting the economic relations of the prairie provinces to the nation as a whole so that the West may be saved for her own children. If we want immigration into western Canada we need have no fear but that this will happen if the conditions are such as to tempt immigrants to come.

B.—UNFAVOURABLE EFFECTS OF DOMINION TARIFF POLICY

At Confederation the provinces gave up their jurisdiction over tariff matters to the Dominion government. Since that time the tariff policies of the Dominion, presumed to be in the interests of the nation as a whole, have worked out to the very great disadvantage of certain provinces.

We have presented to the Commission evidence of the burden of this Dominion policy on the people of this section of the Dominion. The result of our investigation, stated in what we believe to be minimum figures, shows that the burden the Dominion tariff places upon the three prairie provinces comes to the staggering total of 58 million dollars per year. This figure is twice as much as the total of all of the annual taxes imposed by all three prairie governments combined. It is a heavy price to pay for the privilege of being in Confederation.

Cost to Manitoba.—In the case of Manitoba the tariff policy, as now in effect in Canada, has been found to impose a burden of 15 million dollars per year upon our people. This is an indirect tax of almost unbearable weight. It is 75 per cent more than the total of all our provincial taxes which are themselves too heavy. It is almost as much as the total taxes collected by all our municipalities combined. It has for many years imposed a burden exceeding \$100 annually on the average farmer in Manitoba. While the tax in itself is burdensome it has the fundamental weakness that the greater part of it is not credited to the Dominion government revenues—it goes to the beneficiaries of the protected industries.

Not only has the tariff raised the cost of production, but the higher the tariff rates are, the less goods come in, and the less the Dominion gets in tariff revenue; and the less it gets in tariff revenue the higher it has to raise other taxes; thus when the revenues from customs and excise dropped from 189 million in 1931 to 120 million in 1935, a decrease of 69 million (most of which was in customs revenue) other taxes were increased from 107 million to 181 million, or by 74 million dollars. It was during this period that the sales tax was increased from 1 to 6 per cent, and several other taxes, including the sugar tax of 2 cents per pound, were imposed. Thus, when tariff rates are increased the primary producer not only has his market endangered, the price of his products eventually reduced and the price of his necessary purchases increased but he has his taxes increased at the same time.

The tariff has thus constituted a heavy load on the primary industries of our province and those of other western provinces. Moreover, the long term trend of the tariff has been upward in direction and ever-widening in scope. The disabilities upon the province have thus become increasingly onerous in recent years. This apparently never-ending upward trend has constituted what is probably the most unfair development arising out of the federation of the provinces.

When the provinces gave up their jurisdiction over tariff matters in 1867, it was not anticipated that this instrument which was placed in the hands of the Dominion would be used or could be used to the very serious disadvantage of certain sections of Canada. This very marked trend away from the spirit of Confederation provides a justifiable ground for major dissension in Canada.

Three Main Developments of Tariff.—We have pointed out three main developments in Federal tariff policy which deserve attention:

- (1) In the past twenty years, in spite of the views of many in western Canada and elsewhere, tariff rates have continued to move upward. There have been minor adjustments downward from time to time, but the general trend has been in the upward direction.
- (2) More and still more items have been placed under the dutiable classes in the tariff, and, as a result, the tariff has tended to become an ever-increasing burden as far as the primary producers of western Canada are concerned.
- (3) The administration of the tariff has changed to the disadvantage of export industries. In earlier days we could look at the tariff rates as they appeared in the schedules and know (with a reasonable degree of certainty) to what extent we, as primary producers, were being taxed under the tariff. In recent years the situation has been completely changed. Now the part which valuations for duty purposes play in respect to the amount of duty imposed and the extent to which the establishment of import valuations have been delegated to a department of the government have placed this instrument of protection too much in the hands of government officials and too little in the hands of the elected representatives of the people.

Observations on Tariff.—There are two observations which we desire to make with respect to tariff matters as far as they concern the West:

- (1) During the exceedingly difficult period which we have experienced in western Canada following several years marked by unusually low prices for farm products, and by recurring drought over large areas, tariffs were at their highest level since Confederation, a level from

which they have been but little reduced in recent years. Western Canada carried this load when it was least able to do so, a fact that should be emphasized in estimating the disabilities the western provinces have had to cope with in dealing with their economic and financial problems in recent years. Our problems have been made vastly greater by this policy of the Dominion government, much greater than most people, even those in western Canada, realize.

- (2) Our second observation with respect to the tariff is that it has increased production costs to the point where many farm units in western Canada are finding it impossible to function on an economic basis—a trend, that if permitted to continue, will result in economic tragedy, both for us, and for Canadian industry. From the national standpoint, as well as from our own, we believe that the best interests of all concerned lie in the direction of a reversal of these policies. Certainly if the present trend keeps on, more and more of our western farmers will be forced to abandon their farms and seek opportunity to earn a living in other callings now already over-supplied with labour.

In making these observations we clearly recognize that in a democratic system the will of the majority must prevail. How high the majority will consider it wise to maintain our costs of production in order to give tariff support in the national interest to certain secondary industries, the Canadian people as a whole will determine. In the minds of many it is already too high. Surely with the disabilities which western Canadian farmers already face, the Parliament of Canada will come to realize that there is a limit to the burden which they can bear and still survive, and will, therefore, in the national interest, commence a retreat from the high-cost production policy our high tariff rates have placed upon us. If, however, the nation remains disposed to maintain this unequal burden upon several provinces, even at a much reduced rate, we submit, that this is an additional argument, why, in its own interest, and in the interest of equity to those unfavourably affected, it ought to assume a greater responsibility for a reasonable standard of public services throughout the nation.

C.—UNFAVOURABLE EFFECTS OF DOMINION MONETARY POLICY

In 1930 Australia was on the verge of national insolvency. At the present time, after an intervening period during most of which the great depression continued, real incomes of the Australian people and revenues of the Australian government are at a new high point. Prosperity not only for the primary exporting industries, but for the secondary industries as well, is at an all-time high level.

This change for the better, which commenced early in the depression period when most other countries, including Canada, were changing for the worse, was the result of considered governmental action by the Commonwealth

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government in Australia under its recovery plan. The cornerstone of Australia's monetary policy, as was so carefully planned, was the part relating to the exchange rate of the Australian pound. The Australian pound was depreciated so that 100 British pounds would buy 125 Australian pounds. This meant that the Australian farmer who sold his wheat at Liverpool for 100 British pounds could get in terms of Australian money not 100 pounds but 125 pounds. As a result of the Australian government's exchange policy the Australian farmer got 25 per cent more for his wheat in Australian money than he would have got if the Australian pound had not been depreciated.

Argentina and New Zealand, two other large exporting countries, had similar exchange policies. But Canada in 1931, 1932 and 1933, the worst years of the depression, did just the opposite. Instead of depreciating Canadian currency in terms of the British pound so that the western Canadian farmer, like the Australian farmer, would get a 25 per cent increase in price for his wheat in his own money, the Dominion government actually let the value of Canadian money rise in terms of the British pound, so that our wheat producers instead of getting 25 per cent more actually got in 1931, 3.4 per cent less; in 1932, 18.3 per cent less; and in 1933, 6.2 per cent less. If the Dominion government had kept the value of the Canadian dollar in relation to the British pound at the same level that the Australian government kept the Australian pound, the wheat producers in western Canada would have got many millions of dollars more in Canadian money for their wheat, estimated as follows:

	Total for 6 years 1931-36 inclusive	Annual average increase
Manitoba	\$ 31,500,000.00	\$ 5,300,000.00
Saskatchewan	139,900,000.00	23,300,000.00
Alberta	109,300,000.00	18,200,000.00
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Total for prairie provinces.	\$280,700,000.00	\$46,800,000.00

For all grain exports the estimated increase for Manitoba for the six-year period 1931-36 would have been \$35,600,000 or nearly \$6,000,000 per year.

This was a bad deal for the whole Canadian nation. In Part III we have given in detail the reasons for this assertion. We can point to the effects of the opposite policy adopted in Australia. From a financial position which was much worse than that of Canada, it steadily improved, in the midst of the depression to a position today which upon the whole is very much better.

There are those who say that there were reasons, such, for example, as our debt being payable in the United States, why we could not follow the Australian plan. We submit for reasons we have given in Part III that this view is not sound.

But if this view is sound, then what has happened is that the national interest has been served at a cost which has borne at least three to five times as heavily upon the prairie provinces as upon the rest of Canada, because the prairie provinces are that much more dependent upon export markets than the rest of Canada.

Moreover, in proportion to its exports, western Canada had less foreign debt to pay than eastern Canada. Thus, if the argument that the necessity of keeping Canada able to pay foreign debts, at not too great a cost, is sound—which we do not admit—the position is that western Canada lost more on its exports than it gained in paying foreign debts and therefore suffered a substantial net loss through the Canadian exchange policy. Eastern Canada, on the other hand, having in proportion to its exports more foreign debts to pay, either gained a greater advantage in paying its debts than it lost in marketing its exports, or, at any rate, was in a more favourable net position than western Canada. As a matter of fact, eastern Canada did not lose as much as western Canada even on its exports. In the first place, it is less than a third as dependent upon export markets as western Canada, and, in the second, eastern Canadian exports of newsprint, metals, etc., during the worst of the depression were to a large extent to the United States, whose dollar was higher in value than the Canadian dollar.

While the western Canadian wheat producer was selling his wheat in Liverpool for British pounds for which he could get only 96.6 cents in 1931, 81.7 cents in 1932 and 93.8 cents in 1933 on the dollar in Canadian money, the eastern Canadian exporter of newsprint, metals, etc., selling to the United States market, got American dollars for which he obtained 103.8 cents in 1931, 113.5 cents in 1932 and 108.7 cents in 1933 in Canadian funds.

We say, without the slightest hesitation, that Canada as a nation received a bad deal in the exchange policy followed by the Dominion government during the depression. We say that western Canada got much the worst of this bad deal. To those who say that the Canadian exchange policy was a necessary evil in the national interest, we reply that the part of Canada which had to suffer most from that evil was western Canada. And, unfortunately, it was the irony of fate that western Canada was at that very time suffering more than any other part of Canada from several other difficulties of a major character.

\$100,000,000 Loss.—It was of grave moment to western Canada that at the time when we were being prejudiced by the Dominion government's omission to develop a monetary policy in the interests of the primary producer as an exporter, it also, by an act of commission, raised the tariff to a most disastrously high level which was against the interest of the primary producer as a buyer. At the very time Australia was laying her plans for a splendid recovery, out of the ruins of a virtual national insolvency, by means of a policy which had consideration for the interests of the primary producer—a policy which increased the price of exportable commodities such as wheat by 25 per

cent—Canada actually raised the tariff still higher and did practically nothing to increase the prices of her agricultural products. As we have already said, no adequate downward adjustment of these exorbitant tariff rates has since been effected.

This great advantage which we could have secured from an appropriate monetary policy has been recognized elsewhere. The Australian Commission on Grants to the States of Western Australia, South Australia and Tasmania acknowledged and measured the benefit of Australia's monetary policy to her export industries located in the three States mentioned. No other conclusion can be drawn from the decisions of this unprejudiced body than that our failure to provide for Canadian agriculture a monetary policy which would give us equality in competition with our competitors created a disability of major proportions for this section of Canada.

What history will say about the two Canadian policies, which, in the depth of western Canada's greatest crisis, placed upon this part of Canada a further handicap estimated at 100 million dollars per year, there can be little doubt. In the case of Manitoba, these two Dominion policies cost us more than twice as much as all our annual provincial taxes. They cost us more each year than the total of all the municipal taxes levied by our 174 municipalities. Thus, in what the Dominion government did and in what it chose not to do, it was acting in a way utterly opposed to the interests of the primary producers of this country.

- *Low Interest Rates Needed*—The action of the Dominion government in establishing a Central Bank was a favourable feature of Canadian monetary policy. Since it is apparent from the conditions under which the industries of western Canada carry on that it is of the highest importance that all fixed charges, including especially interest rates and taxes (to the extent that the latter are levies to pay interest), should be kept to a minimum, recent Central Bank policy tending towards low interest rates has been most gratifying. The interests of primary producers in western Canada lie wholly in the direction of low interest rates. It is hoped, therefore, that the present Central Bank policy will be continued in order that the basic rates shall be as low as possible. We would point out, however, that the basic rate of interest will have little practical meaning or effect for citizens and governments of western Canada, unless, and until, the readjustments which we now seek have been made, because it is obvious that until then neither the citizens nor the governments will be able to obtain the credit which they require at a rate within a reasonable margin of the basic rate.

- From the standpoint, therefore, of reducing interest rates for citizens and governments in the future, two things are necessary:

- (1) That the basic rate of interest be kept as low as possible by Central Bank policy;

- (2) That by necessary adjustments of private and public debt, and by fundamental changes in the financial plan of Confederation, citizens and governments in western Canada shall be in a position in which they can obtain their credit requirements at a rate of interest approximating the basic rate.

3.—DISABILITIES ARISING FROM CERTAIN EXTRANEOUS FACTORS

A third group of disabilities, namely, those arising from certain extraneous factors, will now be considered. We shall discuss these under three headings:

- A.—The inequity of certain rigidities in the price structure.
B.—The fall in income and decrease in employment following the construction era of development;
C.—The failure of the Dominion government to take adequate steps to deal with the problem resulting from the drastic decline in agricultural income in recent years.

A.—THE INEQUITY OF CERTAIN RIGIDITIES IN THE PRICE STRUCTURE

One of the causes contributing to the economic difficulties of western Canada is the peculiar nature of the price structure that determines the income of different groups and different areas in Canada, and that places upon the primary producers in this part of Canada the full effect of decreases in the world prices of our agricultural products.

By price structure we mean the combination of factors which determines the income of western Canada. Such western income, derived for example from wheat, is what is left to the producer after the fixed charges for all the various expenses of handling it (beyond the producer's door or beyond our borders), are deducted from the world market price. To illustrate: the freight on wheat, the commission on its sale, the cleaning and handling charges are all fixed amounts per bushel regardless of whether wheat sells for \$2.00 per bushel or 50 cents. The prices of equipment and repairs, and the rates of interest on loans, while not permanently fixed, nevertheless respond not at all or very slowly to declines in wheat prices. As a result, western Canada, to a considerable degree, finds its income determined by what is left after other fixed charges and semi-fixed charges, are paid for; it may be said to get the "residual" price.

The effect of this may be made more clear by an illustration. When the price of wheat at Fort William falls from \$1.00 to 50 cents per bushel, it is a decline of 50 per cent in price at that point. If we assume that the total cost incurred in handling wheat after it leaves the farmer's granary is the hypothetical figure of 25 cents a bushel the net price to the farmer would drop from 75 cents per bushel to 25 cents, his income thereby being cut by $66\frac{2}{3}$ per

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cent despite the fact that the price of wheat at Fort William declined by only 50 per cent. At the same time the earnings of the railway for freight and the elevator for storage charges and the commission man for handling charges do not drop at all.

In brief, while the income of certain other classes tends to become a fixed amount per unit of our products regardless of whether the price is high or low, the income of the producer bears practically the whole shock of reductions in price. In other words, the deduction of these fixed charges accelerates the reduction of income to producers and leaves them carrying the major portion, if not all, of the weight of the decline.

We are a producer area and producer's prices are subject to a cumulative series of charges that do not bear a constant relation to price. How serious this becomes when the price of wheat at Fort William drops to 54 cents per bushel, the average for the 1932 crop season, one can well recognize. (One day it was down to 40 cents.)

Another aspect of this condition should be cited. The agricultural commodities which suffer most are those which must seek distant markets. An economy such as that of western Canada, dependent mainly on wheat and foreign markets, therefore, suffers the shock of cyclical dislocations in general business conditions to a greater extent than does the nation as a whole, yet, during all kinds of adverse conditions this western area puts forth its efforts, without cessation or diminution, to produce as large as possible a volume of material goods, thus supporting the income of that long chain of services which stretches across Canada and even to distant markets. Because of these conditions, which force upon primary producers the chief shock of price declines, it is important to recognize, in any re-arrangement of Dominion-Provincial relationships, the need for greater responsibility on the part of the central government for the cost of social services.

B.—THE DECREASE IN INCOME AND LESSENING OF EMPLOYMENT FOLLOWING THE CONSTRUCTION ERA

The income of the people of Manitoba and western Canada generally during the pre-war period depended to a significant extent upon those gainfully employed in the building trades and railway construction. The expansion of these activities along with the development of our natural resources, particularly land, created a progressively prosperous era in the prairie provinces. The influx of skilled and unskilled labourers into western Canada at that time was in a large degree responsible for the growth of our cities, towns and villages. As settlement moved westward, Manitoba continued to service much of this development in the two-way traffic which resulted. When a country is expanding its construction of railways and buildings to meet the needs of a rapidly growing population as in the early years of this century in the West,

employment is increased and tremendous expenditures are made for plant and equipment, and the expenditures for such plant and equipment flow into the income streams of the population. When these activities cease, employment opportunities drop off and the absence of the former expenditures sharply reduces the community income.

In 1911, 15.16 per cent of the total population of Manitoba and 39.27 per cent of those gainfully occupied were engaged in agriculture. In 1936 there was no substantial change, there being 14.29 per cent and 37.65 per cent, respectively, thus engaged.

Decreases in Employment.—In the building trades we find a significant change has occurred. In 1911, 4.03 per cent of the total population and 10.45 per cent of the gainfully occupied were included in this classification. By 1936 this industry had declined by more than a half to a point where only 1.79 per cent of the total population, and 4.71 per cent of the gainfully occupied were so engaged.

In 1911, 3.71 per cent of the total population, and 9.61 per cent of the gainfully occupied were employed in our transportation system; in 1936 these percentages had shrunk by a third to 2.55 per cent and 6.72 per cent, respectively. Relative percentages of those engaged in manufacture, trade and merchandising have also declined.

The tremendously rapid growth of population during the first quarter of the century placed an unusually heavy burden upon the provincial governments, which could in no way control the national growth but which were nevertheless charged with the cost of the public services consequent upon it. Moreover, our present economic difficulties are due in part to the very sharp decline in employment income consequent upon the cessation of activity in the construction industries.

In western Canada, in the discernible future, no large capital expenditures comparable to those that prevailed from 1905 to 1930 may be expected. Our railroads are fully developed and public works in large part completed; our cities, while needing repair, are, to a large extent, already built. The adjustment which we propose with respect to indebtedness and social services recognizes the situation which we have so briefly described but the importance of which we cannot too strongly emphasize.

Burden of Taxation on Land.—In passing it should again be emphasized that no single factor subject to the control of governments has retarded building activity so greatly as the loading of an intolerable burden of taxation on land. This is the result of the unsound policy of leaving social services and relief costs as a charge upon the provinces and municipalities. The land tax is a major obstacle in the way of restoring employment in the building trades. The provincial government has recognized this situation and even in the face

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of pressing needs for revenue has consistently reduced its taxes on land. In the year 1921 land tax levies for provincial purposes amounted to \$2,494,644.43. By 1936 they had been reduced to \$664,000.00, and it is now proposed to eliminate them altogether as sources of provincial revenue.

C.—THE FAILURE OF THE DOMINION GOVERNMENT TO TAKE ADEQUATE STEPS TO MEET THE DRASTIC DECLINE IN AGRICULTURAL INCOME IN RECENT YEARS

The prairie provinces, including Manitoba, were plunged into the severest crisis of their entire history following the collapse of 1929-1930.

In the six years from 1925 to 1930 the estimated total gross agricultural production of the prairie provinces was \$4,326,610,000. In the six years from 1931 to 1936 their estimated total gross agricultural income was \$1,997,066,000, a decline of \$2,329,555,000 as compared with the preceding six years, a decline of 53 per cent, an average decline of \$388,000,000 per year.

This six-year decline is more than two-thirds of Canada's national debt. It is more than seven times the combined net debt of the three prairie provinces as of 1935. It is one hundred and twenty-five times as much as the combined taxes of the three prairie provinces for 1935. In other words, with an amount equal to this six-year loss of value we could pay off the combined net debt of the three prairie provinces as at 1935 and on the basis of the tax receipts of that year have enough left to pay the combined provincial taxes of the three prairie provinces for a hundred years.

In Manitoba, alone, the total gross agricultural income declined from \$790,375,000 in the earlier period to \$364,484,000 in the later one, a decline of 53.9 per cent, an average decline of over \$70,000,000 per year. Thus, in a relatively short period of time, in which there was no opportunity for adjustment to new conditions, the gross farm income of the West and of Manitoba was more than cut in two. We need not remind the Commission of the serious consequences this development brought to western Canada and to the province of Manitoba. If anyone is seeking the immediate cause of the difficulties of the West, he does not have to look beyond these figures.

Inadequate Consideration by the Dominion.—This crisis fell upon western Canada almost overnight from causes mainly outside of the control of our people and our governments. It had a disastrous effect upon the chief basic industry which largely determines the measure of our prosperity. It directly affected the well-being of one-quarter of Canada's population; indirectly, of a much larger proportion. We are of the opinion that the situation was of such national importance that it deserved, and should have received, much more favorable consideration from the national government. It was our view at the time and it is still our view that when the precipitous decline in the price of western Canada's chief product set in, the Dominion government should have

taken constructive measures to prevent the collapse going as far as it did, rather than to let the collapse take place to the extent it did and then attempt to offset its effects by the costly and ineffectual methods used.

We hold this view for various reasons, chief among which is the fact that the necessary power and resources to meet a major economic crisis, such as we experienced in western Canada, lay not with the provincial governments, not with the people of Manitoba, but in part at least with the Dominion government. As citizens of Canada we had the right to expect, that insofar as the western crisis could have been ameliorated by the wise use of those powers which are definitely within the jurisdiction of the Federal government, a major effort would be made in the national interest as well as in our interest to meet it.

Agricultural Assistance in Other Countries.—We have already shown that both the tariff and monetary policies of the Dominion government adversely affected western Canada. We submit now that whatever measures the Dominion government took on behalf of agriculture they do not stand comparison with the efforts other countries directed toward the restoration of their agriculture.

United Kingdom.—In 1932 the United Kingdom passed the British Wheat Act which established a standard price for home-grown English wheat equivalent to 45/- per quarter of 504 pounds, or approximately \$1.30 per bushel. Under this legislation, between 1932-33 and 1935-36 wheat producers in Great Britain were subsidized to the extent of over 125 million dollars, or over 30 million dollars per year.

Australia.—In Australia, in addition to pursuing national policies which substantially improved the economic position of Australian farmers, the Commonwealth government also granted subsidies to wheat growers. From 1931-32 to 1934-35 Australia thus distributed £12,548,000, or over 60 million dollars—an average of 15 million dollars per year to her producers.

Incidentally, it may be pointed out that in their recovery plan they cut interest rates on the internal debts of their governments by 22½ per cent, cut all adjustable government expenditures by 20 per cent, cut industrial wages by 20 per cent, reduced mortgage rates of interest and bank rates of interest and put on heavier taxes.

Manitoba sought a similar approach to the Canadian problem but up to the present other counsels have prevailed. In the meantime, we did everything within our power that Australia did. We cut our government expenditures to the same degree as Australia. We cut all salaries over which we had control. We increased taxation. Mortgage rates of interest and bank interest were beyond our control. Interest adjustment on our governmental debt was not possible without default or repudiation. An interest adjustment on some reasonable basis is now long overdue and it is hoped this Commission will help find a way to its accomplishment.

Argentina.—In Argentina, the government pursued liberal monetary policies based upon maintaining the value of the peso at a point where Argentine farm products could flow freely into international markets, and the Argentine producer secure a substantial measure of compensation for low international price levels, in the price which he received for his grain in the Argentine. In addition, the Argentine government fixed minimum prices for wheat in 1933, 1934 and 1935.

Subsidies to Producers in Europe.—During the six years from 1929–30 to 1934–35 domestic price levels in France, Germany and Italy have been maintained at a substantially higher level than obtained in the international market as evidenced by quotations at Liverpool. Accepting the difference between domestic prices in these countries and the world prices of wheat during these years, statistics show that wheat producers in France, in the six years from 1929–30 to 1934–35 were subsidized by over a billion dollars, an average of 160 million dollars per year; wheat producers in Germany were subsidized by over 750 million dollars, an average of 125 million dollars per year; and wheat producers in Italy were subsidized by over a billion dollars, an average of some 160 million dollars per year. Scarcely a country in Europe has not taken action of some kind or other to relieve the burden of agricultural depression as it has arisen in the years following 1929–30.

United States.—In the United States, under the Agricultural Adjustment Act, some 300 million dollars were paid to wheat producers over a three-year period. In addition, the objective of the Agricultural Adjustment Act was to restore the purchasing power of the farmer to the parity which existed in pre-war days, and the efforts of the government were directed toward that objective. In the United States, throughout the entire depression, the farmers of that country have had the full powers of the Federal government mobilized for their assistance in one form or another.

Agricultural assistance was forthcoming in almost every country in the world, the common objectives being, first, to recognize that depression weighed heavily on agriculture, and, secondly, to do something to alleviate the distressed conditions in that industry which followed the collapse of 1929–1930.

Canada's Efforts.—Let us consider for a moment what Canada did to assist the agricultural producers. One bonus was paid to wheat producers in western Canada; in 1931 a bonus of 5 cents per bushel was paid on that portion of the 1931 crop which was marketed. This subsidy totalled \$12,734,-689.00. The bonus was discontinued thereafter.

Canada also attempted to assist agriculture by the stabilizing operations conducted by the Dominion government through the agency of Canadian Co-operative Wheat Producers Limited. While the final result of these operations has not been made public, there is every indication that the actual cash contribution of the Federal government in connection with stabilization operations will be negligible.

Canada also undertook certain expenditures in connection with drought relief matters. These expenditures, of course, were not associated with those factors which caused the low prices experienced during the depression, but rather with climatic misfortunes which affected certain areas in western Canada. They were made to relieve distress rather than to put agriculture in the same relative position as other industries.

Dominion moneys were also spent in western Canada as in other parts of Canada for unemployment relief—moneys spent to offset the effects of unfavourable policies or the lack of favourable ones. These moneys to the extent given were fully appreciated but it is important to remember that they were not spent as part of a rational scheme to restore a balance in the national economy, but rather to buy food and groceries to keep from starvation those who were unemployed, many being so, solely because that balance had not been restored.

When these measures for the relief of agriculture, as an industry, as distinguished from those for human relief, are compared with the assistance which other countries have given to their wheat producers during the depression, we can reach no other conclusion than that agriculture is Canada's forgotten industry. On balance we have suffered far more from the tariff and monetary policies pursued by the Dominion than we have benefited by all the financial contributions which were made to assist us. Moreover, when these contributions are compared with the disabilities which were created as a result of unfavourable Dominion policies, we can reach no other conclusion than that, aside from the relief and rehabilitation plans, the part so far played by the Dominion government, in respect to the agricultural depression in western Canada, has been a definitely negative one.

4.—DISABILITIES ARISING FROM CERTAIN INHERENT CONDITIONS

We have discussed certain disabilities arising from the set-up of the federal system, certain others arising from unfavourable federal policies and still others arising from certain extraneous factors. We wish now to indicate to you certain disabilities arising from conditions that are inherent in this part of the Dominion. The disabilities we shall discuss under this heading are:

- A. Climatic limitations;
- B. Wide fluctuation in agricultural production;
- C. Dependence upon foreign markets;
- D. Wide variability of income.

The first and second of these cannot be altered, either favourably or otherwise, by recommendations of this Commission. They are presented here not in the hope that this Commission or the Dominion government can do anything to change them, but rather for the reason that their effect upon our

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economy must be appreciated by Canadians if Canada is to be expected to adopt policies that will be in the interests both of Canada as a whole and at the same time in the interests of this portion of Canada.

A.—CLIMATIC LIMITATIONS

It has already been pointed out that the annual wealth production of Manitoba and of the three prairie provinces is largely dependent upon the success of agriculture, all other primary industries producing a very small percentage of the total with secondary industries in an intermediate position.

In agriculture, as contrasted with the secondary industries, the value of the wealth produced is determined by yield and price. We wish here to discuss only the question of yield as it is affected by climate.

Factors Affecting Yield.—The yield per acre or volume of production in agriculture depends upon the relationship of several factors, chief among which are the soil, the climate, the suitability of the crops grown and the efficiency of the farming practices followed. In most agricultural countries of the world the soil factor is the first and most important one in agricultural production. In western Canada, on the contrary, some climatic condition is often the first limiting factor in crop production. This fact has only recently come home to the people of Canada. It is not suggested that fertile soils are not desirable in a dry country, neither is it suggested that good crops can be obtained under favourable climatic conditions on inferior soils. The fact is that fertile soils are the best soils both in humid and in semi-arid climates. But what we wish to make clear is that the first limiting factor in our wealth production in western Canadian agriculture is generally not our soil but our climate. While a fertile soil will produce more than an infertile one in dry years as well as in wet years, yet the most fertile soil in the world will not produce a crop without a large supply of water, neither will it produce paying returns if the crop it produces is destroyed or seriously damaged by low temperatures.

A large proportion of the land between Winnipeg and the Rocky Mountains is rich in the essential elements of plant food, but even the best of this land will not produce paying crops when the rainfall is less than 10 or 12 inches per year, or when killing frosts occur before the crops mature. The climatic limitations on the volume and quality of our production is but little understood and even less appreciated by the general public. It is nevertheless a major factor in our economy as is being driven home to us by the "drought" and "dust bowls" of recent years.

Precipitation a Limiting Factor.—It may be asked what are the factors of climate that so affect the production of wealth on western Canadian farms. While a full answer to this question need not here be given, it should be more generally understood that precipitation, or to use the more popular term rainfall, is the chief limiting factor. In some years, particularly along the northern fringe of settlement, low temperature is the chief limiting factor.

To illustrate this point let me give three examples. In the year 1928 the three prairie provinces produced 545 million bushels of wheat; in the year 1937 they produced approximately 164 million bushels. In the province of Saskatchewan the respective yields were 321 million bushels for 1928 and 35 million bushels for 1937. In 1915 many farms produced more than 50 bushels per acre, which in 1937 produced nothing per acre. These results measure the difference between relatively favourable climatic conditions and extremely unfavourable climatic conditions. They illustrate what may from time to time be expected in the drier parts of any climatic zone where the average precipitation is not far above the minimum requirements of a good crop, and where wide extremes from the average frequently occur.

Basic Facts.—A few brief statements of fact with respect to precipitation will help to make clear the bearing of this factor upon western Canadian agriculture. The basic biological facts are that plants cannot grow without water and that in their growth tremendous amounts of water are necessary. The amount required varies under different conditions, but ordinarily more than half a ton of water is necessary to produce a pound of wheat. Unfortunately, the amount that falls in western Canada is relatively small. It is smaller in some parts than in others. It is very small in some years and in some groups of years, and it falls at untimely seasons in occasional years, and what does fall is subject to uneven loss through evaporation, run-off, the growth of weeds and unsuitable tillage.

The chief points to be noted are:

- (1) That while most successful agricultural regions of the world have a precipitation of from 20 to 50 inches per year, the whole of the prairie provinces have less than the smaller of these figures;
- (2) That the average precipitation is the highest in the eastern sections of the prairie and along the foothills of the Rocky Mountains and that it is lowest in the vicinity of the Saskatchewan-Alberta boundary line, ranging from 20 to 22 inches at Winnipeg to around 10 to 12 inches in the driest portion of southwestern Saskatchewan and southeastern Alberta, and up to 18 and 20 inches or more in the western sections of Alberta near the foothills;
- (3) That while the above figures give approximate averages there are wide departures from the average, and that while a section of southeastern Alberta and southwestern Saskatchewan may have an average rainfall of less than 12 inches, in some years there may be less than half that amount and in occasional years 50 per cent more. In the years of heavy precipitation good crops generally result; in years of less than average precipitation in these dry sections crop failure is almost inevitable;

- (4) That not only do single years occur when the precipitation is below the average, but sometimes a series of years occurs in which each year is below the average. In the latter case results like those of the last half dozen "drought" years appear;
- (5) That not only are there single dry years and groups of dry years, but in some years the precipitation comes at a season of the year when it is least useful for purposes of crop production. Normally the heavy rainfall comes during the growing season of cereal crops. In fact, were it otherwise the total precipitation that falls in western Canada would not be sufficient to produce paying crops and there would be no agriculture as we know it on the western plains. But while a favourable distribution of rainfall within the growing season is the normal condition, yet occasionally there are departures from this normal, in which case lessened production occurs.

From these statements of fact as to the precipitation in the three prairie provinces, from the figures given showing the extremes in yield due to variability in climatic conditions, and from the fact that man is practically helpless insofar as increasing the amount of precipitation is concerned, it will be realized how important a factor climate is and always will be in our western economy.

The point for this Commission and for the people of Canada to realize is that in the occasional years when these unfavourable conditions do come in areas of any considerable size for more than a short period, partial or complete crop failure may result, in which case not even a minimum of public service can be provided by the areas so affected. It is thus apparent that to the extent to which we place responsibilities upon small units of government in such areas, to that extent will public services fail in times of unfavourable extremes of climate; and to the extent that the stronger central government assumes responsibility for a minimum of public services to that extent only will public services be assured to all areas in times of drought or other misfortune.

It is not our purpose in this presentation to burden the Commission with a detailed analysis of all the factors of climate as they affect agriculture. It is our purpose, rather, to make clear to the members that due to climatic limitations, western Canada has a disability of a character very different from other parts of Canada and one which is deserving of consideration by the Canadian people when they are determining the kind of set-up they will provide for the maintenance of public services throughout the nation.

Temperature Factor.—Thus far in this section on climatic limitations we have dealt only with the precipitation factor. Another limiting factor is low temperatures. The short period between the last destructive spring frosts and the first killing autumn frosts is another limiting factor, one which limits the choice of crops within relatively narrow confines.

In the year 1907 a large part of the Canadian wheat crop was frosted before maturity. There is no way of telling how much the yield was cut down. On thousands of acres the crop was never cut, and the statistics of the grades of wheat for that year show that it was of a very inferior quality. Except along the fringes of settlement in extreme northern parts and in the higher altitudes, this hazard has been greatly reduced—in many parts practically eliminated—in recent years by the production of early maturing crops and by more suitable cropping practices. It nevertheless remains in some degree a climatic hazard in some areas.

A major temperature factor, however, is the long winter period, the chief effect of which, from the economic point of view, is to raise the cost of production in this area as compared with more southerly climates. Our long winter not only increases the cost of housing, the cost of clothing and the cost of buildings, but it increases the cost of livestock production beyond that of many more southern areas. These factors, all of which increase not only the cost of living but the cost of production, constitute a handicap on this part of Canada in its competition with producers in less rigorous climates. The net result is that we are handicapped in building up our livestock industry into one of major proportions since we find it difficult to compete successfully with New Zealand in the dairy industry, with Argentina in the cattle industry, or with Australia in the sheep industry. We must, therefore, in many parts develop these lines as subsidiaries to the thing we can do better. We are thus forced to place our chief reliance upon wheat production with its hazards and its high costs, some of which are placed upon it by national policies, and all of which tend to drive good land into marginal land and marginal land into the submarginal class.

In case these comments on climate may leave an erroneous impression, let me say that they are presented not to give a complete picture of our climate but only as illustrative of the limitations it places upon agriculture, including the wide variability of returns in different years. It is not to be assumed that there are no advantages from our climate. Quite the opposite is true. It is the low precipitation in the harvest season and the relatively high temperature at that time that make possible our high quality wheat. A climate with a heavier rainfall and a lower temperature at that period would give a lower quality wheat. The fact is the climate except in its departures from normal and its low precipitation in the drier parts of the country, is admirably adapted to the production of wheat of a high quality and to many other annual crops. The relatively dry seeding and harvesting periods, and the relatively heavy precipitation in the growing season between, provides a combination which is most desirable from the point of view of the successful production of high quality cereals.

B.—WIDE FLUCTUATIONS OF AGRICULTURAL PRODUCTION

As an evidence of the wide variability of production in agriculture, we may recall to you that in 1928 the prairie provinces produced 545 million

bushels of wheat, whereas in the year now just past, 1937, they produced but 164 millions. Illustrating the same point, Manitoba in the year 1922 produced 60 million bushels, but in 1935 produced only 22½ millions.

These total figures hide many greater extremes for local areas and the statistics for local areas hide even greater extremes for individual farms. It is estimated that the four crop districts in the drought area of Saskatchewan produced 644 million bushels of wheat in the five years prior to 1930, but in the following five years they produced only 308 million and in 1937 they produced practically nothing. As an example, within the areas just now referred to there are individual farms which have produced 50 bushels per acre in one season but which have not produced that much from the same unit of land in the total of the last seven years.

From these facts, illustrating the wide fluctuation of production in agriculture, it will be at once apparent that our annual wealth production is subject to wide variations.

These and other statements are not presented to this Commission with any idea that it will recommend to the Dominion government that western agriculture can, or should be saved, by the national government underwriting an uneconomic industry. On the contrary, western agriculture seeks no hand-out from the nation. Bonusing agriculture in areas where it is uneconomic would be the most fatal mistake the nation could make. The sooner the boundaries of such areas are determined and the regions within these boundaries relegated to the purposes for which they are suitable, the better for all concerned. All western Canada seeks is equitable treatment and some measure of assurance that if it continues production through periods of depression, to the great benefit of the nation as a whole, it may at least expect that a minimum standard of public services shall be provided at all times, but particularly in these periods of stress.

C.—DEPENDENCE UPON FOREIGN MARKETS

For the purpose of the present discussion the term "foreign markets" includes all markets outside of Canada.

Since Confederation, western Canada has increased its production of wheat from practically nothing to 545 million bushels in the best year (1928), and to an average for the ten-year period prior to 1930 of approximately 360 million bushels.

Since Confederation, western Canada has increased its exports of wheat from nothing to 408 million bushels in its biggest year, 1928-29, and to an average of 270 million bushels in the ten years prior to 1930.

Out of a normal production of 360 million bushels in western Canada only 90 million bushels are required to fill the needs of all of Canada.

From these figures it will be seen that since Manitoba entered Confederation, western Canada has developed as a wheat-growing area to the position where, for three-quarters of its production, it is entirely dependent upon outside nations for a market. In the light of a position as vulnerable as this, the Canadian nation has a heavy responsibility resting on its shoulders to see that foreign nations have no just cause for refusing to take Canadian wheat. Let us note for a moment how great that responsibility is.

A Great Natural Industry.—In exports of grain and grain products alone in the past 20 years western Canada has brought nearly seven billion dollars in new wealth to Canada, an amount equal to more than twice the national debt of this country. In spite of the climatic reverses of recent years a similar contribution to Canadian prosperity during the future is more than probable if unfavourable national policies do not intervene. No other industry in Canada can approach the wheat industry of the prairie provinces as a national asset if it is not hampered by the state itself.

The simple fact is that the wheat industry has played a major part in Canadian development and is still one of paramount national importance to Canada.

Western Canada is a great wheat producing area because its land is suitable to extensive farming; because its land, in conjunction with its climate, produces the highest quality of wheat in the world, and because it has developed the world's most efficient grain-handling system. Wheat production is for us a natural industry, the thing which we are best equipped to do.

Our welfare is directly related to our ability to sell wheat abroad and to meet all competition in the world's markets. Since Canada, as has been pointed out, requires but one-quarter of its average annual production for home use, three-quarters of its normal wheat production must find a market abroad. We are thus in a most exposed and vulnerable position. If the Canadian nation should, for any reason, fail to secure and maintain adequate markets overseas a price collapse must be the inevitable consequence.

One of our main difficulties in the past has arisen for the reason that federal fiscal and monetary policies have stood between us and our ultimate markets abroad. In connection with the question of markets we put this question to the Commission and to the Canadian people, "How can our great cereal industry, and other primary industries of Canada, be expected to maintain and increase their sales in foreign markets under a tariff policy designed, not for a great primary producing country with large surpluses of wheat, forest products, cattle, fish, minerals and furs, to sell abroad, but designed primarily to promote industrial production within the Dominion?"

A cardinal principle in our search for markets is that we must buy from others if we are to expect them to buy from us. Insofar as the fiscal policies of this country lessen the flow of goods from those countries which, year

after year, buy the surplus products of our western farms, to that extent is the position of western Canada prejudiced and made more vulnerable. The essential fact that, in our judgment, must be kept in mind in determining Canadian trade policies is the dependence not only of western Canada, but the whole of Canada, excepting only the southern part of Ontario and Quebec, upon foreign markets.

Must Buy if We Hope to Sell.—The major primary industries of Canada can never be in any position except that of dependence upon foreign markets. If importing nations decide to buy less wheat, grain-exporting nations have no choice but to lose such markets with all that such a loss means in demoralization of prices. By way of illustration: in the five-year period following 1930, the wheat-importing countries of France, Germany and Italy increased their average annual production by 118.9 million bushels above their average annual production of the preceding five years. As a result of this increase in home production, these countries actually bought from exporting countries in the five years following 1930 only 46 million bushels per year as compared with 191 millions per year in the five years preceding 1930. In consequence of this and other causes the four chief exporting nations, including Canada, in the latter five-year period found a market for their total export demand reduced by 199 million bushels per year.

How great a price we may eventually have to pay, if the nation does not sufficiently bestir itself to secure and maintain export markets, only time will tell. In this connection another question full of potentialities for good or ill remains to be answered. We put it quite frankly, and quite honestly, to the Commission, and to the Canadian people, "Must the whole of Canada, except southern Ontario and Quebec, forever continue to bear the major shock of extreme declines in income resulting from the loss of world markets when the interests of a small portion of the nation dominate the trade and fiscal policies which are the only means we have of favourably affecting export markets?"

D.—WIDE VARIABILITY OF INCOME AND ITS EFFECTS

Canadian Prosperity Dependent Upon Export Markets.—One of the outstanding characteristics of the Canadian economy is its dependence upon the prosperity of the primary industries of agriculture, forestry, mining, fishing and furs. The prosperity of these industries in turn is dependent upon the price levels in the export markets of the world.

The state in Canada cannot, of course, control the fluctuations of the export price level. It should, however, be emphasized in passing that the state can and should translate that export price level into as high a level as possible in terms of Canadian currency, and that it should also take all possible steps to keep production costs down to a point which will permit Canadian

activities to function upon existing export price levels whatever they may be. Export markets cannot be secured or maintained except by appropriate trade policies of the nation.

It would seem perfectly clear that the great natural resources of Canada are of service in increasing our national wealth and standards of living only to the extent that they can be cheaply transformed into goods which can be competitively sold in the world markets. The large exportable surpluses—of grain, cattle, timber products, metals, fish and furs which we in Canada produce over and above what we need ourselves, are of no value whatever to us unless they can be sold competitively in the world markets at a profit to the primary producer in terms of Canadian currency.

Thus it is in the interests of the nation to face the inherent difficulties and the other more or less uncontrollable factors which induce variability of income in the primary producing areas. It is in the interests of the nation to face these inherent difficulties because it will pay the nation to do so. As an example, we need merely to mention that industry with which we are here chiefly concerned, western Canadian agriculture. In the period from 1908 to 1936, inclusive, it produced eight billion bushels of wheat, valued at slightly over seven billion dollars at the farm. An industry and an economic area which can produce wealth in this quantity for the nation would seem to be well worth the cost of saving during a period of adversity.

Export Markets Subject to Wide Fluctuation in Price Levels.—As a measure of the variability of income in agriculture in western Canada, we may cite the wide divergence in price for No. 1 Northern wheat at Fort William during the period since the war. The average yearly price range in this period was from \$1.68 per bushel in 1924-25 to 54 cents per bushel in 1932-33. Not only do average yearly prices vary widely, but the prices within even one year often fluctuate widely. In the calendar year 1936 the average monthly price varied from a low of 77 cents in May to a high of \$1.20 in December.

These variations in price, coupled with the variation in yields resulting from climatic and other causes, have produced wide variations in income, illustrated, for example, by the fact that the gross value of agricultural production in the prairie provinces in 1927 was \$859,724,000, while in 1931 it was but \$291,666,000. In Manitoba the gross value of agricultural production in 1919 was \$214,248,000, while in 1931 it was but \$49,695,000.

The Decline in Income in Manitoba and the West.—While in Manitoba the fluctuations in income in the agricultural industry are much more pronounced than in any other industry, it is nevertheless noteworthy that the net value of all production, including of course agricultural, also fluctuates widely. It was, for example, \$235,182,168 in 1928, while in the year 1933 it was but \$98,801,770. Complete figures as to the variability in Manitoba's income for the whole period relevant to this enquiry are to be found in the appendices of Part V of this brief.

Some of the significant facts there shown are:

- (1) Since 1926 the national income of Canada declined from 5,800 millions to 3,800 millions, or by 34 per cent;
- (2) During the same period the total income from primary and secondary sources in Manitoba declined much faster or from 348 millions in 1926 to 172 millions in 1935, a decline of 50 per cent;
- (3) During this period the total value of agricultural production in Canada fell much more rapidly than did that of any other primary or secondary industry. For example, it fell from 1,400 millions in 1926 to 623 millions in 1935, or by 56 per cent. On the other hand, the total value of production from manufacturing decreased from 1,200 millions in 1926 to only 950 millions in 1935, or by only 21 per cent;
- (4) During the period in which the total value of Canadian agricultural production declined so much faster than that of other industries, the net value of agricultural production in Manitoba declined to a much lower point than the average for Canada. For example, during the period when the total value of Canadian agricultural production dropped from 1,400 millions to 623 millions, or by 56 per cent, the net value of Manitoba's agricultural production dropped from 120 millions to 35 millions, or by 71 per cent;
- (5) A very significant result of the low incomes in Manitoba (and Saskatchewan) is that while the per capita taxation (in 1933) was but \$1.00 per year more than the average for Canada, it required 14 per cent of our smaller income to raise the tax revenue necessary to provide for the public services that were provided throughout the rest of Canada by taxation that required only 10 per cent of their incomes. To put it another way, the burden of taxation necessary to provide public services here was, when measured in the terms of our lower income, 40 per cent heavier than the average for the rest of Canada. Similarly, the burden of fixed interest charges on debt becomes increasingly heavier as incomes decline—a decline of one-third in income increases the burden of such fixed charges by 50 per cent.

Thus the decline in income, together with the wide variability of the income of citizens of Manitoba, has had effects, the ramifications of which extend throughout the whole economic and financial sphere, both public and private. It is out of income that the citizen pays taxes, debt charges and provides his livelihood. If, as his income declines, his debt charges either remain constant or increase, then he will have that much less money with which to pay taxes and provide his livelihood. Taxes and debt service are the two most important fixed charges upon the income of the citizen. The

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extent of the amount required for debt service, therefore, is a matter of vital concern not only to the individual citizen, but by its effects upon taxable capacity, to the state as well. In the province of Manitoba the problem of private debt, therefore, has a direct bearing upon the matters under consideration before this Commission and warrant our examining it at this point.

Effect of Declining Income on the Burden of Private Debt.—In Manitoba the problem of private debt, like that of public debt, has been greatly intensified by the decline in the provincial income resulting from six successive years of relative crop failures at a time of low world prices for agricultural products. The cumulative effect of these disasters has left Manitoba and its citizens in a position which makes basic adjustments of both public and private debt essential if financial stability is to be maintained either for the province or for the individual.

By compiling statistics furnished by the Dominion Bureau of Statistics, the Mortgage Loans Association, the Canadian Farm Loan Board and the Manitoba Farm Loans Association, we are able to present a summary of the private debt situation in Manitoba.

TOTAL FARM INDEBTEDNESS	
Secured on farm land.....	\$69,553,158.00
Secured on chattel or unsecured.....	23,184,386.00
	\$ 92,737,544.00
TOTAL URBAN INDEBTEDNESS	
Secured on land.....	\$ 67,849,575.00
TAX ARREARS, URBAN AND RURAL	
As of municipal year end 1936.....	14,696,278.00
TAX SALES CERTIFICATES, URBAN AND RURAL	
As of July 1, 1937.....	\$ 18,961,375.00
Total.....	\$194,244,772.00

The method of computation of the above table is indicated in footnote below.¹ It has been found impossible to estimate satisfactorily the amount of urban private debt secured upon chattels, or unsecured, hence this item is not shown in the table. In addition to the foregoing, municipal corporations

(1) The compilation of the Manitoba Economic Survey Board of the 1936 census returns, kindly made available through the courtesy of the Dominion Bureau of Statistics, indicates that in 1936 the total mortgage indebtedness of Manitoba was \$51,322,800.00. Mortgage Loans Association on November 2, 1937, inform us that the mortgages and agreements for sale held by the members thereof upon rural lands total \$33,149,304.25, to which should be added the amount owing to the Manitoba Farm Loans Association, \$4,832,590.85, and to the Canadian Farm Loans Board approximately \$3,750,000.00, making a total of \$41,731,895.10. The Mortgage Loans Association of Manitoba comprises thirty-one companies doing, it is thought, along with the Manitoba Farm Loans Association and the Canadian Farm Loan Board, approximately 90 per cent of the farm loan business. Therefore, by multiplying the above total by 10/9 we get \$46,368,772.00 as the amount of farm indebtedness secured upon land owing to corporation. According to the tabulations based upon the 1936 census returns, of the 19,510 farmers reporting indebtedness upon land totalling \$51,322,800.00 in 1936 about one-third reported that their debt was held by private individuals. This would mean that in order to arrive

(Footnote continued on Page 41)

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hold tax titles, representing tax arrears to the amount of \$16,359,757.92, of which amount rural municipalities hold \$2,491,184.65. The arrears represented by these tax titles do not indicate present debt but rather past debt which was so incapable of payment that the municipalities were forced to take over the land against which it was charged.

Most farm debt, other than that secured upon land, is of a floating or revolving character which, under normal conditions, is liquidated periodically and without difficulty. This type of debt, if anything, will tend to be larger but nevertheless more easily borne during good times than during bad times. It does not so greatly concern the question of taxable capacity as capital debt which is payable in instalments under contract over a period of years.

When a farmer borrows under a long term mortgage, or buys under a long term agreement for sale, the only basis upon which the fixed charges thus created upon his future income can be paid is that his future income shall remain within a reasonable margin of variation from the amount at which it stood when the mortgage or agreement for sale was made by him. When the debtor's income falls below that reasonable margin, then the mortgage or agreement becomes incapable of performance either partially or wholly, quite irrespective of the honest intentions of the debtor. The secured debt then becomes a depressive debt and hampers the debtor in all of his business dealings and thereby limits seriously not only his own taxable capacity but that of all with whom he deals. Moreover, if the income remains greatly inadequate for a long period of time, the deferred debt becomes so depressive that the debtor's financial position is seriously, and in some cases permanently, impaired and his morale as a producer and a citizen shattered.

Thus the vital factor affecting debt of any type, public or private, is ability to pay. This ability on the part of the residents of this, or any other, province can only be measured in terms of provincial income. The situation in Manitoba in this regard is best indicated by reference to the following table:

at the total mortgage indebtedness upon the basis of the total above mentioned of \$46,368,773.00 should be multiplied by the fraction $\frac{3}{2}$. This would give a total indebtedness secured upon farm land in Manitoba of \$69,553,158.00 as of November 2, 1937, as compared with \$51,322,800.00 shown by the census returns.

The difference between these two figures reflects this major circumstance: We are informed by the officials of the Manitoba Debt Adjustment Board and by members of the staff administering the Farmers' Creditors' Arrangement Act in Manitoba that in their experience the census figures incline to be rather conservative owing to the failure of the persons reporting their indebtedness orally to make proper allowance for the accrual of interest, insurance and other charges as of the date of their report. We think that this will indicate that our figure of \$69,553,159.66 is approximately correct. It has been found from studies, viz.:—

Surveys of the Canadian Pioneer Problems Committee in 1930 and 1931, volumes 5, 6 and 7.

Studies of farm indebtedness and financial progress of Saskatchewan farmers, Report No. 4, of the Humboldt District, 1934, page 43,

that approximately 75 per cent of the total farm debt was secured upon land and the remainder secured upon chattels, or unsecured. We have, therefore, multiplied the figure of \$69,553,158.00 by the fraction $\frac{1}{3}$ in order to arrive at the total farm indebtedness of Manitoba secured upon chattels or unsecured.

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Year	MANITOBA Income	Index Number
1926.....	\$347,800,000	100
1927.....	335,960,000	96
1928.....	394,960,000	110
1929.....	311,080,000	89
1930.....	235,350,000	68
1931.....	203,910,000	59
1932.....	168,700,000	48
1933.....	165,930,000	48
1934.....	178,560,000	51
1935.....	172,040,000	49

Proportion of Income Less than Proportion of Population.—It has been pointed out in Part V that the citizens of Manitoba have never secured a share of the national income proportionate to their share of the national population. From 1926 to 1935 Manitoba is shown as having 6.75 per cent of the population of Canada. At no time during this period did Manitoba secure 6.75 per cent of the total national income. This percentage had declined to 4.44 per cent in 1935. In that year Manitoba, along with New Brunswick, Nova Scotia and Saskatchewan each had a share in the national income that was only about two-thirds as large as its share in the total national population. In the industrial province of Ontario, however, the relationship was the other way about. Ontario's share of the income in 1935 was about one-third larger than its share of the population. It has been our purpose to show in other parts of this brief that this existing relationship between population and income, both in the primary producing area on the one hand and in the industrial areas on the other, is not entirely the result of natural advantages or accident, but that to a material extent it is the result of Dominion government policy.

Decline in Manitoba Income Greater Than in Most Provinces.—The effects of declining income upon the people in certain provinces of Canada may be shown by comparing the average of the index figures representing the total net production of the people in each province for the years from 1929 to 1935, both inclusive:

INDEX OF INCOME, AVERAGE FOR 1929 TO 1935, INCLUSIVE (1926=100)

Ontario.....	82.5
Quebec.....	80.2
Nova Scotia.....	73.5
British Columbia.....	71.8
Alberta.....	59.1
Manitoba.....	58.8
Saskatchewan.....	37.0
Canada.....	72.5

This means that for every \$100 of income which they had in 1926 the people of Saskatchewan on the average for the years 1929 to 1935 had only \$37.80; in Manitoba only \$58.80; in Ontario \$82.50; while the people of Canada as a whole had \$72.50 of income. It will be observed that during this seven-year

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period each of the two provinces of Nova Scotia and British Columbia had an average income index which was approximately equal to that of Canada as a whole; that each of the two provinces of Ontario and Quebec had an average income index of about 10 above that for Canada as a whole, and that each of the two provinces of Alberta and Manitoba had an average index income of about 13 below that of Canada as a whole. Special adverse circumstances account for Saskatchewan's low average index during this period.

Decline in Income Greater in Agriculture than in Other Industries.—While the decline in total net production might be considered the most accurate criterion by which the financial difficulties of Manitoba may be judged in comparison with those of other provinces, there are reasons, we think, why it is not. If the decline in Manitoba's net total production had been distributed evenly throughout all occupational groups the measure of that decline alone might suffice as an accurate criterion. But the decline in Manitoba was not distributed evenly between all occupational groups. The mining industry, on the basis of 100 for 1926, never went below 100 and rose as high as 324 and the average was over 200. The manufacturing index never went below 77, and rose as high as 130, and the average was not much under 100. Agriculture in Manitoba has suffered a much greater decline than any other industry in the province and a much greater decline than agriculture in any other province except Saskatchewan and a much greater decline than agriculture in the industrial provinces.

The following are the index numbers of total net production in agriculture in Manitoba for the years from 1930 to 1935, inclusive, on the basis of 100 for 1926. It should be emphasized that total net production figures here used represent gross income from the standpoint of the farmer, out of which he has to pay, among other things, operating costs.

Year	Index Number
1926.....	100.00
1930.....	38.84
1931.....	23.47
1932.....	30.22
1933.....	33.83
1934.....	37.86
1935.....	29.17
1930 to 1935 Six-year average.....	32.23

It cannot be too strongly emphasized that every farmer has a certain operating cost which he must pay regardless of the amount of his income. It could not be said that the total net production in agriculture in 1926 gave the farmers in that year an operating profit of $66\frac{2}{3}$ per cent. If the farmer did not have an operating profit of $66\frac{2}{3}$ per cent, then, since his average gross income for all of the six-year period from 1930 to 1935, inclusive, was less than one-third of what it was in 1926, agriculture in Manitoba during the whole of this period must have shown a heavy operating loss even if debt charges, taxes and all other fixed charges were left unpaid and wholly out of account.

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It is clear, therefore, that what is involved in a decline of agricultural income of these proportions is not merely a question of the burden of taxes and debt charges. It is not a matter of the taxes and debt charges being three or four times as heavy in relation to income as they were in 1926. It does mean that many Manitoba farmers, during the whole of this six-year period, had not anything like enough gross income to pay for all their operating costs, debts and taxes, and would have to look to the state for a great part of their livelihood unless they had been fortunate enough to have accumulated some savings. It means that the state, in turn, whether federal, provincial or municipal, could look for nothing from the farmer in the form of taxes, but, on the contrary, would have to tax the reduced income of the remainder of the population in order to pay interest charges on moneys borrowed for relief to farmers without such savings. It has meant large scale default in municipal tax payments, drastic reductions in school district income, and harsh cuts in school teachers' salaries to approximately 50 per cent of what they were at their peak. It has meant widespread destitution and distress which has greatly increased the expenditures of municipalities, of provincial governments, and of the Federal government, for relief. This relief has had to be advanced not only to destitute farmers, but to all those workers in cities whose livelihood is directly or indirectly drawn from goods sold and services rendered to farmers.

Greater Winnipeg has about one-third of the population of Manitoba. It is a distributing, manufacturing, banking, grain and cattle trade centre. As such, Greater Winnipeg is as much interested in agricultural production in Saskatchewan, and to a lesser extent in Alberta, as in Manitoba. Bearing this in mind, let us look at the declines in value by years as shown in the following table of net value of agricultural production:

	MANITOBA		SASKATCHEWAN		ALBERTA	
	Net Agricultural Production	Index No.	Net Agricultural Production	Index No.	Net Agricultural Production	Index No.
1926.....	\$120,166,000	100.00	\$316,886,000	100.00	\$219,887,000	100.00
1927.....	98,332,000	81.83	364,722,000	115.10	298,152,000	135.60
1928.....	135,435,000	112.71	364,992,000	115.18	248,289,000	112.92
1929.....	68,275,000	56.82	173,110,000	54.63	128,327,000	58.36
1930.....	46,677,000	38.84	77,595,000	24.49	86,510,000	39.34
1931.....	28,210,000	23.47	44,267,000	13.97	91,778,000	41.74
1932.....	36,315,000	30.22	91,668,000	28.93	99,530,000	45.27
1933.....	40,649,000	33.83	77,840,000	24.56	93,991,000	42.75
1934.....	45,491,000	37.86	78,547,000	24.79	109,009,000	49.58
1935.....	35,047,000	29.17	107,844,000	34.03	97,490,000	44.34

AVERAGE INDEX FOR YEARS 1929 TO 1935, BOTH INCLUSIVE

Manitoba	Saskatchewan	Alberta
34.88	29.34	45.91

These figures reflect conclusively the ordeal through which western Canadian agriculture has been passing during the seven years ending 1935; the

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year 1936 is but little better—1937, although much better in Manitoba, is much worse in western Canada as a whole.

It is obvious from these figures that unless relief and adjustments on a large scale of both public and private debt are arranged, and unless western provincial treasuries are relieved of the burden of providing social services to meet a seven-year emergency of this magnitude, that wholesale bankruptcy of individuals, corporations and municipalities will be the inevitable result, and the provincial governments will not be exceptions. In the light of these figures the decision which faces the nation is whether at a moderate cost western Canada will be retained as a region which will contribute in the future, as it has in the past, large amounts of wealth to the nation—for example, wheat to the value of seven billion dollars in the last 28 years—or whether credit will collapse, sound government disintegrate, and the control of its public affairs be given over to extremists and dominated by the economics of protest. It may be observed that if the latter is the course taken there is no way of supposing that the remainder of Canada can remain immune, socially, economically or politically, from the inevitable effects of such a choice.

Debt Adjustment in Manitoba.—Under the circumstances set out above it is not surprising that creditors, voluntarily in many cases and under compulsion in others, have given a measure of assistance to debtors. Debt adjustment has been invoked in an attempt to bridge the gap between the farmer's contractual fixed charges and his hopelessly inadequate income. We shall briefly summarize the adjustments made, recognizing that there are a very large number of cases of private voluntary adjustment of which there is no public record.

SUMMARY OF DEBT ADJUSTMENTS IN MANITOBA OF WHICH THERE IS PUBLIC RECORD

Voluntary cancellation of debt by the Manitoba Farm Loans Association since 1931, including \$123,000.00 written off in drought areas.....	\$ 530,704.31
Voluntary cancellation of debt by Manitoba Rural Credit Society prior to 1929.....	\$1,100,902.30
Since 1929.....	318,187.40
	1,419,089.70
Seed grain and relief indebtedness written off by province in drought area municipalities:	
Seed grain.....	\$340,867.87
Relief debt.....	917,470.42
	1,258,338.29
Voluntary reduction or cancellation allowed by loan companies (of which \$996,116.72 applies to mortgage agreements in drought areas).....	2,649,268.85
Reduction in farm debts under Farmers' Creditors' Arrangement Act in 2,687 cases disposed of by Board of Review.....	8,233,000.00
	Total.....\$14,090,401.15

In addition to the above reduction, the Debt Adjustment Board of the province was able to arrange substantial reductions in debt, although no information as to total amount is available. In addition, the operations of the

Canadian Farm Loan Board has had the effect of scaling down debt since the prospect of being paid in cash from a loan has induced many creditors to give a substantial discount.

The Legislature of Manitoba in its attempt to pass legislation to meet the debt situation early found itself faced with an insuperable barrier. Under the British North America Act the jurisdiction over bankruptcy and interest was vested in the Dominion Parliament. Hence, while the provincial Legislature of Manitoba might pass laws suspending the creditor's rights to proceed against debtors, it had no constitutional authority to empower the provincial Debt Adjustment Board actually to reduce or cut the amount of the creditor's claim. No such compulsory reductions were possible until the Dominion Parliament, in the exercise of its jurisdiction over bankruptcy, passed the Farmer's Creditor's Arrangement Act.

Debt Adjustment Legislation.—In its efforts, within the limits of its constitutional jurisdiction to meet the need for debt adjustment laws, the Manitoba Legislature passed the following statutes, viz.:

In 1931 the legislature passed the first Debt Adjustment Act, superseding it a year later by the Debt Adjustment Act, 1932, now in force. Under this statute sale proceedings and foreclosures under mortgages, agreements for sale of land, judgments, merchants' liens, etc., as well as seizure of farmers' chattels under lien notes, chattel mortgages and judgments, and also various other types of legal action, were forbidden, unless permission was obtained from the Debt Adjustment Commissioner, in any case where such action related to or affected the farm land or farm chattels of a farmer, or the actual home of a non-farmer. Similar protection was given to the owner of any real estate where there was less than a year's default in the interest on the first mortgage and in taxes and fire insurance premiums. It was, however, provided that these restrictive provisions did not affect new contracts (not being mere renewals of older ones) entered into after April 1, 1931.

Tax consolidation statutes were passed in 1932, 1933, 1934 and 1935, which, although not reducing the amount of municipal taxes, empowered the municipal councils to "consolidate" them and make them payable in instalments over a period of years. In the session of 1937 the power was given to municipalities to enter into special agreements with individual debtors, providing for the redemption from tax sales and payments of tax arrears by instalments over a period of years. In 1933 the Debt Adjustment Commissioner was given power to provide for redemption of land from tax sale by instalments.

At the session of 1934, with a view to encouraging voluntary adjustments and co-operation between loan companies and farmers, the legislature amended the Debt Adjustment Act by providing that if the new agreements setting forth the voluntary adjustments and compositions were submitted to and approved by the Debt Adjustment Commissioner, they would not thereafter be subject to the restrictive provisions of the Debt Adjustment Act.

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Since the passing of the 1932 statute, the Debt Adjustment Board set up under the Act has disposed of approximately 14,000 cases, of which about 9,000 were rural. Only a portion of these (about 11,000), of course, related to debts secured upon land. For some time after its inception the Debt Adjustment Board was unable to make substantial progress in securing reductions of debt, but during the past few years it has arranged by negotiation for the cancellation of a very considerable amount of debt, although information as to the total sum is not available.

That these measures have had some good effect is indicated by the figures contained in the following tabulation:

	Total Number of Farms Mortgaged	Total Value of Mortgages	Average Amount of Mortgage Debt Upon Each Mortgaged Farm
<i>Manitoba:</i>			
1931	18,710	\$ 59,223,400 00	\$3,165.00
1936	19,510	51,322,400.00	2,630.00
<i>Saskatchewan:</i>			
1931	55,955	175,770,300.00	3,141.00
1936	62,224	188,118,300.00	3,023.00

Obviously the decrease in value of farm mortgages in Manitoba has to a considerable extent been influenced by reductions, voluntary and otherwise, to which reference has been previously made. Taking these into consideration, the table indicates that as a result there has been a contraction in the value of mortgages, whereas during the same period in Saskatchewan the number of farms mortgaged and the total value of the mortgages had increased substantially. That the decline in the average amount of mortgage debt upon each mortgaged farm is the result of adjustment rather than repayment seems abundantly clear.

It is recognized that the limits of provincial jurisdiction regarding debt are such as to make any legislative action by the government palliative rather than remedial. Subject to this constitutional restraint the legislature and government of Manitoba have done everything legally possible to alleviate the burden of private debt.

CONCLUSIONS

Following a long period of declining income the question of private debt may be regarded in either of two ways:

First, it may be regarded as a matter for adjustment between debtor and creditor. So regarded, it is a matter for the Dominion Parliament to deal with because the Dominion Parliament alone has exclusive jurisdiction over the subject matters of bankruptcy and interest, which are involved in debt adjustment. The reduction of the indebtedness incurred before the depression

to a reasonable relation to the debtor's present ability to pay, in view of the reduced income which the debtor has received for several years consecutively, is a matter with respect to which only the Dominion Parliament can legislate. We urge, therefore, that until a position of greater balance has been restored to all Manitoba farmers, that the Farmers' Creditors' Arrangement Act should be continued with such amendments as from time to time may be necessary.

Continuance of Provincial Debt Adjustment Acts.—Since the Farmers' Creditors' Arrangement Act does not cover all cases, it will be necessary, at least until the last mentioned or a similar Act is made to cover all cases of farmers and urban home owners, that the Manitoba Debt Adjustment Act be continued as well.

Co-ordination of Provincial and Federal Acts.—It would seem that by joint federal and provincial action a better co-ordination of these two Acts might be reached in order to minimize overlapping.

Operation of the Canadian Farm Loans Board.—As a means for the refunding of private farm debt at a lower interest rate, the activities of the Canadian Farm Loans Board, although successful as far as they have gone, have not been very extensive in Manitoba as yet. We would urge that by more suitable and extensive advertising, and other publicity methods, the attention of the farmers might be called to the advantages of refunding their indebtedness by new loans from the Board.

Second, private debt may be regarded as part of the larger problem of economic recovery. The happy results of the "Premiers' Plan" in Australia were in considerable measure due to a recognition of the fact, in the words of W. T. G. Hackett, writing in *The Canadian Chartered Accountant*, January, 1936, that:

"In settling disputes, the Courts recognized that the principle involved was the necessity of reduction of interest charges for an economic purpose rather than the relative position of debtor and creditor. The fact that a private or corporate debtor could afford to pay the original rate of interest was not regarded as grounds for the maintenance of such rate for the benefit of the creditor."

FINANCIAL, ECONOMIC AND SOCIAL EFFECT OF THESE DISABILITIES

In your instructions you have been asked to examine the results of the Dominion-Provincial relationship. Having concluded a discussion in some detail of certain disabilities that have been operating in our western Canadian economy, let us now, without elaboration, summarize these results as evidenced by the conditions at present existing insofar as they affect individuals, municipalities and school districts, and the provincial government.

EFFECTS ON INDIVIDUALS

With respect to individuals—

- (1) Incomes have declined to a point below the average for Canada; and net profits from private enterprise in agriculture, except in the last two years, have in many cases disappeared;
- (2) For large numbers of our citizens, private indebtedness has been found too heavy to be borne, necessitating the continuance of Debt Adjustment Laws by the provincial government and of the Farmers' Creditors' Arrangement Act by the Dominion;
- (3) For many taxpayers arrears of taxes are beyond their capacity to pay;
- (4) Production of agricultural products by farmers has been maintained largely by drawing upon capital reserves, by permitting heavy depreciation in equipment, by dispensing with all but a minimum of hired labour, by a large degree of dependence upon family labour, and by a distinct lowering of living standards;
- (5) To many individuals opportunity for employment has disappeared; a long repetition of disappointments has brought discouragement, loss of hope of improvement in economic conditions and the acceptance by some of radical views which find expression in various forms of political protest in the hope that a change might bring about better conditions.

The sum total of the effects of these conditions explains in part the rise of the farmers' organizations, the development of co-operative associations, the extension of the C.C.F. political organization, the appearance of communism a few years ago, and still more recently the social credit movement in Alberta.

Whatever else these movements may have been and however different in form or purpose, they were all protests against inequities and injustices long continued and for which remedies had been too long delayed. From the beginning to the present these have been portents of internal stresses in our economy which in our opinion the state cannot longer refrain from correcting by major adjustments of policy and of governmental set-up. It would seem to be self-evident that the accumulated burden of private debt must be lessened in deserving cases and a more constructive plan provided for dealing with unemployment.

EFFECTS ON MUNICIPALITIES AND SCHOOL DISTRICTS

How have the conditions of past years reacted upon the local administrative units in our set-up, the municipalities and school districts?

- (1) The decline in private income brought disastrous declines in local tax revenues;
- (2) The decline in tax payments brought difficulties in municipal administration; municipal deficits became the rule and not the exception;
- (3) In many instances not even the cost of normal services has been met out of ordinary revenue;
- (4) Drastic reductions have been made in the cost of services, particularly schools;
- (5) The necessity of unemployment relief, particularly in urban centres, brought a financial burden that could only be met by borrowing. Of the larger urban centres which found themselves carrying much the heaviest burden, the weaker ones met the situation by default in interest payments, some were able to avoid that course and the city of Winnipeg, where the problem is concentrated, although in a sound position only a few years ago, is now faced with a financial crisis;
- (6) Crop failure over several years in five municipalities and over a shorter period in eight others in the southwestern corner of the province created a local situation that was only met by the generous assistance of provincial and Dominion governments;
- (7) The interest on indebtedness in the suburban municipalities adjacent to Winnipeg, in certain municipalities in the drought area, and in certain northern and eastern municipalities could not be met, and defaults occurred;
- (8) The land tax, the chief and practically the only source of revenue for rural municipalities and the major source for urban ones, became so burdensome that it is a real deterrent to building construction, which has largely disappeared and with it opportunities for employment in the building trades. At the same time lands and urban property, in unprecedented quantities, have been abandoned or have come under the ownership of municipalities, thereby returning to the municipalities but little revenue in many cases and for the most part none at all;
- (9) In general it may be said with respect to municipalities in Manitoba that while their per capita taxation is approximately the same as the average for Canada, yet in relation to income of the people during the last ten years it has been about 35 per cent higher;
- (10) School districts fared similarly to the municipalities and all that has been said concerning the difficulties of the latter can with equal force be said with respect to the former. Many schools were kept

from closing altogether only by the doubling up of school districts, the acceptance of drastic salary cuts by teachers and by extra grants from the provincial government. The educational needs of some of the more thinly settled areas had to be met by the inauguration of correspondence courses for public school children. In spite of these unusual conditions, municipalities and school districts have met their financial problems as well as their economic conditions permitted, but have done so by a lowering of the standards of public service below what a minimum Canadian standard should be.

EFFECTS ON THE PROVINCIAL GOVERNMENT

I have indicated how the sum total of these disabilities reacted upon individuals, upon municipalities and upon school districts. What has been the effect on the provincial government?

- (1) The decline in private income has expressed itself in a drastic decline in normal provincial government income, and this resulted in current deficits;
- (2) The current budget has been maintained in a state of balance only by drastic economies on the one hand and onerous taxation on the other;
- (3) Declines in private income, in industry and business threw men out of employment in unprecedented numbers and these became an added financial burden to the state;
- (4) The financing of unemployment relief could not be met out of current revenues, but was met by the thoroughly unsound method of borrowing;
- (5) These conditions so increased extraordinary expenditures and so decreased ordinary revenues as not only to throw the provincial budget out of balance but to impair provincial credit so that the treasury could not borrow except at prohibitive rates of interest;
- (6) To meet this contingency, the policy of borrowing from the Dominion government to meet relief requirements was forced upon the government as a measure of absolute necessity;
- (7) The increase in the relief debt necessitated a heavy increase in current expenditures for interest;
- (8) To meet the demands of a minimum standard of public service, Manitoba with its per capita income reduced to three-quarters of the average for Canada was forced to maintain, even under these trying conditions, a tax rate which, while approximately the same on a per capita basis, on the basis of income was 35 per cent higher than the average of the other provinces;
- (9) Interest alone remains the one single item in our budget which has not been arbitrarily reduced.

From an impartial analysis of the provincial government's position under the economic, social and political set-up of today two things are abundantly clear:

- (1) In the face of the world crisis of the last seven years, to which there has been added an agricultural depression of entirely unprecedented magnitude and several years of drought accompanied by the lowest price for our chief agricultural product in the last 400 years, the public debt of Manitoba, now absorbing for debt charges over 47 per cent of the provincial expenditures, must be refunded at lower interest rates;
- (2) The people of the province, with an income now much below the average for Canada, and further handicapped by unfavourable federal policies, ought not to be left with the responsibility of maintaining public services and relief on a standard essential to the well-being of the community.

CONCLUSIONS

From this summary it will be apparent that there are two types of problems now demanding a rational solution, those having to do directly with individuals and those having to do with their governments, provincial and municipal.

The major problems affecting individuals are two in number:

- (1) How to meet the accumulated financial burden resulting from the unusual disabilities of past years; and
- (2) How to deal with unemployment.

Unfortunately, aside from the administration and financing of unemployment relief, neither of these comes directly within the purview of this Commission. We have, nevertheless, taken the liberty of reviewing them for your general information and for the purpose of making certain suggestions with respect to them.

The problems facing the provincial government and the municipalities and school districts are also two in number:

- (1) How to meet the weight of the accumulated financial burdens of the past arising out of a world depression; and
- (2) How to give in the future to the citizens resident in this section of Canada a reasonable standard of public services, the responsibility for which has been left with the province, on a tax base that the Fathers of Confederation never conceived as adequate to meet such unanticipated responsibilities and on an income much below the average for Canada.

With respect to these two problems, both of which come within the range of this Commission's duties, we desire to submit two major proposals for your consideration.

TWO MAJOR PROPOSALS

In regard to the two problems of public debt and social services, we desire to submit two major proposals:

- (1) The reconstitution of the provincial debt at lower interest rates; and
- (2) Reallocation of responsibilities between the Dominion and provincial governments.

1.—RECONSTITUTION OF THE PROVINCIAL DEBT AND INTEREST BURDEN

Manitoba's provincial debt has been shown to have grown to such a size that it requires a very large percentage of the annual revenue to meet the interest and debt charges thereon. It has also been shown that it is impossible to increase taxation in Manitoba above its present level. Some adjustments, therefore, must be made in the interest rates on Manitoba's debt.

Other countries have faced the necessity of similar action. They have accomplished the required results, some by refunding callable bonds, some by inflation, some by a measure of compulsory refunding, some by default and some by repudiation.

After several years of effort by certain Canadian provinces no reduction of interest and debt charges on provincial public debt in Canada has been accomplished either by joint action or by mutual agreement, except that resulting from default. Inflation was not within Manitoba's power. Repudiation would have been unjust and dishonourable. Mutual adjustment has not been found practicable of accomplishment.

Feeling that default was unwise, both in the interest of Canada in general and in the future interest of Manitoba in particular, we have during the past five years, by the most drastic measures of economy and by severe taxation managed to avoid it. It is impossible to continue these measures, however, and inasmuch as we are going further into debt each year by some four millions of dollars for relief borrowings, we must in common fairness to all, including the holders of our bonds, face the situation which now confronts us. The time has come when material adjustments must be made on some mutually acceptable basis, or inevitably other more arbitrary and less satisfactory procedure to accomplish a lessening of the interest burden will have to be taken.

The Burden of Interest Charges.—Before outlining the debt reconstitution plan we wish to point out to you the burden that interest charges have become upon our reduced income.

- (1) It has been shown that while Manitoba has a slightly lower per capita net debt than the average for Canada, and while Manitoba was the only province in Canada whose debt has not been doubled

in the period since 1926, yet in this province where our debt is slightly below the average and has increased relatively less than in any other province, our debt in 1935 was equal to 42 per cent of our income while the average debt of the other provinces was equal to but 29 per cent of their incomes;

- (2) It has also been shown that while Manitoba's per capita combined municipal and provincial debt is smaller than the average for Canada and that since 1926 it has increased only by 32 per cent while that for all Canada has increased by 64 per cent, yet the more greatly increased total municipal and provincial debt of all Canada equalled only 70 per cent of the national income in 1933, while Manitoba's municipal and provincial debt combined equalled 98 per cent of the income of her people in the same year.

Plan Proposed.—In the hope of accomplishing a rational adjustment of interest rates, we propose a plan which provides for the co-operation of the Dominion government, the bondholders and ourselves, one which will give to creditors a just return and a maximum of protection and to the province a reasonable adjustment in interest rates.

In Sections A and C of Part IX of this submission a plan of reorganization of Manitoba's budget will be found outlined in some detail. We wish here briefly to point out the chief features of the proposal.

Cancellation of Relief Debt.—We propose the cancellation of all of the relief debts now owing by the province of Manitoba to the Dominion government (\$19,257,819.08 as at April 30 last), and the cancellation of all the relief debts now owing by the municipalities to the provincial government (\$4,365,097.50 as at April 30 last). We propose also the assumption by the Dominion government of all relief debts now owing by the municipalities otherwise than to the Manitoba government (City of Winnipeg \$5,398,000 at December 31, 1936—at present approximately \$7,000,000). The basis upon which all of these debts were incurred and upon which most of the moneys now represented by them were advanced by the Dominion was that of need. If the need had not existed in such a critical form that funds could not, as a matter of fact, have been borrowed elsewhere, these advances would not have been made. The need arose because the provinces and the municipalities were attempting to maintain, upon a tax base inadequate for that purpose, social services which should never have been the responsibility of any government excepting the Dominion government. This burden of social services and the debts incurred therefor by the province and the municipalities more than any other factor have created the financial crisis which now faces the province and its municipalities. The cancellation of this debt, therefore, is one of the most effective methods of helping the province and its municipalities to avoid a disastrous outcome of that crisis.

Retention of Subsidies—Debt Assumption by Dominion—Refunding of Balance.—We recommend the assumption of a part of the provincial debt by the Dominion in return for retention of the subsidies upon the express condition that the holders of Manitoba's bonds at the same time co-operate in the refunding of the balance of Manitoba's direct and indirect public debt at average rates of $3\frac{1}{4}$ per cent and $3\frac{1}{2}$ per cent per annum respectively.

A low rate of interest on the whole debt is the achievement which we must seek to attain. In the case of Manitoba, upon the basis of this proposal, the savings in interest charges would amount to \$2,400,000 per year. If the plan were followed by all provinces on the same basis the saving in interest would be \$23,000,000 per year.

This proposed capitalization of subsidies, expressly conditioned upon the bondholders' co-operation in refunding the balance of Manitoba's direct and indirect bonded debt, is the great step which will permit the necessary scaling down of indebtedness so that provincial credit will be restored. This phase of the proposal can be achieved without any additional cost being placed upon the Dominion.

2.—REALLOCATION OF RESPONSIBILITIES BETWEEN THE DOMINION AND PROVINCIAL GOVERNMENTS

We come now to the second major proposal. The proposal for the reallocation of responsibilities between the Dominion and the provinces is as follows:

- (1) The Dominion to assume full responsibility for the financing and administering of unemployment relief (including, as already outlined, the provincial and municipal debt for relief to date);
- (2) The Dominion to accept responsibility for the total cost of old age pensions, in place of the 75 per cent of the cost it is now paying;
- (3) The Dominion to share with the provinces on substantially a 50-50 basis the cost of the following services:

Mothers' Allowances,
Hospitalization,
The Care of the Mentally Afflicted,
Public Health Services,
Highway Construction and Maintenance,
Technical Education.

- (4) The province to give to the Dominion the sole power to collect succession duties.

The reallocation plan which we have proposed contemplates that the Dominion shall undertake to provide approximately one-half of the cost of our social services, chiefly services relating to public welfare. We believe that with such a participation in these burdens the Dominion would not be undertaking more than a just proportion of the costs of such services.

We have requested that the Dominion spend an amount for federal trunk highways in Manitoba equal to the amount which Manitoba proposes to spend upon provincial highways. We cannot urge too emphatically the great interest that our federal government, which has done so very little in this direction, should have in our highways. Canadian highways are one of our most important earning assets. The receipts from the tourist trade of Canada now amount to considerably more than \$250,000,000 annually. There are few countries in the world whose highways are so directly an earning asset as are those of our own country, yet our own central government has taken a minimum of responsibility for them.

ADVANTAGES TO MANITOBA FROM THESE TWO PROPOSALS

What would Manitoba secure for herself if these two proposals were carried out?

The province would be able to relieve the pressure upon municipalities and school districts primarily for education, social services, roads and to reduce tax levies, all to the extent of over \$2,600,000.

The province would secure a saving in interest charges of some \$2,400,000 per year; it would be able completely to balance its budget; it would be permitted to reduce its high level of taxation.

SPECIFIC EFFECTS

For purposes of greater clarity we may set out in more specific detail the effects of these proposals upon the different governmental units in our federal system.

These proposals would mean for the province:

- (1) A saving in interest charges of \$2,400,000 annually;
- (2) Relief from the cost of unemployment services;
- (3) Relief from the one-quarter cost of old age pensions;
- (4) Relief from a portion of the cost of certain services, including:
 - Mothers' Allowances,
 - Hospitalization,
 - The Care of the Mentally Afflicted,
 - Public Health Services,
 - Highway Construction and Maintenance,
 - Technical Education;

- (5) A transfer to the Dominion of the sole power to collect Succession Duties;
- (6) An adjustment with the Dominion of obligations and responsibilities which would; (a) make possible the transfer to the municipalities for their services of all assistance received by the province from the Dominion for other than unemployment relief; (b) permit the performance of normal provincial services which have been starved by the economies of recent years.

These proposals would mean for the Dominion:

- (1) Co-operation in making possible a constructive adjustment of the present financial impasse of the provinces and municipalities;
- (2) The receipt of the revenues from succession duties now collected by the province;
- (3) The assumption of \$1,941,674 per year in increased financial obligations for the cost of social services, including old age pensions;
- (4) Liability for interest charges on that portion of the provincial public debt assumed by it—an amount equal to the subsidy retained by the Dominion;
- (5) Assumption of responsibility for administration and financing of the whole cost of unemployment relief, including the relief debt of the provinces and the municipalities;
- (6) A measure of substantial justice that will bring dividends in national harmony and unity and progress and a great impetus to our whole economic life.

These proposals would secure for the municipalities and unorganized territories and the services they support:

- (1) A net gain of some \$2,600,000 per year, including
- (2) Repeal of the land tax now imposed for Old Age Pensions, \$344,000;
- (3) Repeal of the land tax for other levies, \$24,000;
- (4) Reduction in interest charges on direct and indirect debt, \$250,000;
- (5) Increased financial assistance for highways, \$815,000;
- (6) Increased assistance for market roads, \$260,000;
- (7) Increased educational grants, \$1,000,000.

These two proposals, the debt reconstitution plan and that for reallocation of services are presented to the Commission as a joint plan. Together they seek to put the province and the municipalities in such a position that with continued care in controlling expenditures these local governments may be

expected to meet their responsibilities in a reasonably acceptable manner. This joint proposal will not make possible relief to municipalities on any generous scale, such as some of them will no doubt seek. Our plan is offered as a reasonable proposal, with neither too much in the way of added obligations upon the Dominion nor too much in the way of extra assistance to the municipalities; although without doubt the Dominion will protest that it is being asked to assume too great responsibilities and the municipalities will protest that not enough has been requested to enable them to function properly.

If essential parts of this joint plan should not be found acceptable, the province cannot undertake beforehand to agree to other parts. For example, if the debt reconstitution plan is acceptable and the reallocation of services plan is not acceptable we are not to be understood as now agreeing to the debt reconstitution plan alone as it is now proposed. It is essential that in whatever action is taken the province must achieve a completely balanced budget upon the basis of reasonable services and reasonable taxation.

CLOSING

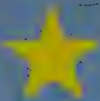
This ends the submission of the Manitoba government. We have sought to present the case for this portion of Canada as fully and frankly as possible, without either overstatement or understatement.

The views expressed and the proposals advanced have been arrived at after long and careful inquiry. We invite the most thorough examination of them. We submit them for your consideration with other plans that will no doubt be placed before you, and we ask only that they be considered on their merits.

In closing these remarks we wish to say that we have unbounded faith in the future of western Canada if we are not hampered by other than inherent natural conditions. Agriculture, which is the basis of our economic life in this part of Canada cannot be revived and stabilized unless it has assurance of adequate export markets. Without export markets there is no sound ground for optimism as to our future. With export markets, which sound long-time national trade and fiscal policies would secure, we believe that the natural advantages of western Canada are such that they can be developed far beyond anything we have yet attained.

It is unfortunate that neither the members of this Commission nor anyone else can predict what the long-time trade and fiscal policies will be. That being so, we urge upon this Commission such a readjustment of Dominion-provincial relations as will make possible within Confederation, a workable plan under which the Dominion, provincial and municipal governments can provide for the people in every province of Canada, that common standard of public and social services to which as Canadian citizens they are justly entitled.

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MANITOBA'S CASE

A SUBMISSION PRESENTED TO
THE ROYAL COMMISSION ON
DOMINION-PROVINCIAL RELATIONS

by

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Part IX

*An Examination of Certain Proposals for the
Readjustment of Dominion-Provincial
Financial Relations*

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PART IX

AN EXAMINATION OF CERTAIN PROPOSALS FOR THE READJUSTMENT OF DOMINION-PROVINCIAL FINANCIAL RELATIONS*

SECTION A. RECONSTITUTION OF THE PROVINCIAL DEBT

This submission, consisting of three sections, deals first with a proposal for the conversion of part of Manitoba's indebtedness (Section A). This proposal is considered in light of its effects when applied to the indebtedness of all the provinces of Canada. Recommendations have been made, however, that look towards the refunding of all the indebtedness of the province. Before the reconstitution of the entire debt can be considered, it is necessary further to readjust the financial relations between the province and the Dominion. In a general way these readjustments involve the sharing of the costs of social services. It is for this reason that social services are considered in the second section (Section B) before expression is given to the full effect upon Manitoba's financial position of all the recommendations of a financial nature that are made in these submissions.

The final section gives financial statements for Manitoba that reflect in complete detail the effects of all the financial readjustments that have been proposed (Section C). It will be observed that in Section C there is applied specifically to Manitoba and the Dominion the outstanding principles that have been advocated in the first two sections of this submission, as well as certain additional principles that have not been considered separately in other sections.

It is to the fundamental interest of the Dominion to keep the provinces financially solvent. This cannot be achieved if indebtedness is piled upon the provinces in an amount which they cannot maintain. We refer to the Dominion's present policy of granting loans to some of the provincial governments to furnish them with funds that they could not otherwise obtain. The principles that must be followed in carrying through fiscal reorganization should be similar to those involved in private financial reorganization. These principles are: (1) reduction of indebtedness and (2) reduction of the annual burden of fixed charges. Were provincial indebtedness substantially reduced, the provincial governments would be able to carry the reduced debt load and to effect important savings by the refunding of remaining indebtedness at the low interest rates now prevailing. Without such reduction the provinces cannot re-establish that credit condition which will permit them, in the capital markets, to fund or refund any part of their indebtedness whatsoever, whether due to the Dominion or to private investors. Moreover, without reducing

*This submission was prepared by A. R. Upgren and R. McN. Pearson.

the level of taxation in certain provinces it will be impossible to make available for ultimate debt retirement any of the increases in tax revenues which may be anticipated with a return of normal economic conditions. We, therefore, turn to a basis for debt reduction which has been suggested in another quarter.¹

In a recent book on federal subsidies Maxwell² proposes the capitalization of provincial subsidies as the formula for solving the problem of "the heaviest burden upon the budgets of most provincial governments"—debt charges. He says further that "these charges are out of line with the present level of prices and interest rates" and that "the provinces have no easy method of relief." Maxwell's proposal is that in return for complete abolition of unconditional subsidies now paid to the provinces the Dominion shall "lift a substantial proportion of the debt from the shoulders of the provinces."

This proposal in brief means that the Dominion government would take over that amount of the debt of the provinces upon which the interest that the Dominion would pay would be precisely equal to the amount of subsidies which it now is paying unconditionally. In our calculations of the amounts of debt that this would involve for each of the provinces and the total amount of debt the Dominion would assume we have used an interest rate of three and one-quarter per cent, a rate slightly below the yield available upon the fourteen-year bonds sold by the Dominion in November, 1937. Using this interest rate of three and one-quarter per cent we may calculate, as an example, the amount of Manitoba's debt that the Dominion would take over in accordance with the principle Maxwell has advanced. Manitoba's subsidy payments from the Dominion for the year ended March 31, 1936, amounted to \$1,716,500. The amount of bonds upon which interest, at three and one-quarter per cent, equals \$1,716,500 is \$52,800,000. This is the amount of Manitoba's debt that could be taken over by the Dominion so that the interest at three and one-quarter per cent, to be paid by the Dominion in the future, would be precisely offset by the subsidy which the Dominion would not have to pay in the future.

The net effect of this plan would be to eliminate completely unconditional subsidy payments by the Dominion to the provinces. Thereby the provinces would lose their subsidies, which, as we have pointed out, are equal to three and one-quarter per cent on the indebtedness which the Dominion would take over. The provinces pay a rate of interest which we shall assume to be approximately five per cent,³ so that the net saving to them would be the

1. Discussion of the problem of tax adjustment is deferred to another section. See Section C, Reallocation of Governmental Services and the Resulting Budgetary Position, for details covering proposed tax adjustment and for a measurement of the savings available to Manitoba under a proposed plan of reconstituting the entire debt of the province.

2. James A. Maxwell, *Federal Subsidies of the Provincial Governments in Canada* (Harvard University Press, 1937), Chapter 14. (Quotations from p. 192).

3. As is shown in Table 2 below, total net funded debt of all of the provinces on March 31, 1934, was \$1,352,572,000 and interest on total debt for the fiscal year ended at that date was \$67,186,000, yielding an average rate of interest of 4.97 per cent.

excess interest of one and three-quarters per cent. On this basis the net saving to a province would be equivalent to more than one-half of the present amount of subsidy received—a substantial net saving.

This arrangement, as an integral part of the complete program of readjustment and reform that is proposed in the following sections, would permit practically all of the provinces to refund their remaining indebtedness at a rate of interest that would result in a further substantial reduction in present debt charges. At a later point, in the case of Manitoba, we calculate this additional saving as well as the total saving.⁴

If the plan is considered from the point of view of Canada as a whole, it will be observed that there is no net increase in expense to the Dominion budget and that there is a very substantial direct saving to the provinces; and there is the further advantage that refunding of remaining provincial government indebtedness at low rates of interest is made possible.

A permanent solution of the present fiscal disabilities of the provinces requires in addition the sharing of the expenditures on certain social services with the Dominion government. Though the capital improvements of the provinces necessary to meet the needs of a growing population have been in part provided for, the provinces have been unable to meet satisfactorily the more recent burden of recurring costs for social services and capital expenditure necessary for their maintenance, and for highway purposes. The transfer of indebtedness, as proposed, together with the transfer of a part of the cost of social services, would effect that readjustment of the financial load of the provinces which is necessary to meet the conditions now existing.

We affirm that the present difficulties are not due to extravagant and wasteful expenditures. We emphasize that the tremendously rapid growth of population during the first quarter of the century placed an almost unbearable burden upon the provincial governments, which were charged with the responsibility for an increasing share of the cost of national improvements, but could in no way control the national growth. The present economic readjustment in Canada, even aside from the effects of drought and depression, is due in part to a very sharp decline in incomes. When a country is expanding its plant facilities to meet the needs of a rapidly growing population, the expenditures for such plant equipment flow into the income streams of the population. This, of course, is the very essence of the business cycle. In the prosperity phase of the cycle tremendous expenditures are made for plant and equipment; in the depression phase the absence of these expenditures sharply reduces the national income. In a period of recovery countries with a fairly stable population may anticipate a fairly complete recovery to, and an advance beyond, their earlier high income levels. In Canada, in the discernible future,

4. See Section C, Reallocation of Governmental Services and the Resulting Budgetary Position.

RECONSTITUTION OF THE PROVINCIAL DEBT

no large capital expenditures comparable to those that prevailed from 1905 to 1930 may be expected. Our railroads are fully developed and public works in large part completed; our cities are built. *A permanent readjustment has taken place.* The adjustment which we propose with respect to indebtedness and social services recognizes the situation which we have so briefly described, but the importance of which we cannot too strongly emphasize.

In Table 1 we present a calculation of the capitalized value of the annual subsidies paid by the Dominion government to the provinces, using an interest rate of three and one-quarter per cent. These capitalized values provide the amount of provincial debt recommended for assumption by the Dominion government. The capitalized value of the total amount of subsidies is approximately 523 million dollars. The amount of subsidy payments for the year ending March, 1936, totals almost 17 million dollars. The total amount of debt to be assumed by the Dominion government would increase its present interest-bearing debt by approximately one-sixth. The amount of indebtedness in Canada as a whole, of course, would not be increased. In fact, as has been pointed out, the annual burden for the Dominion would not be increased because the increased interest charges would be offset by the cancellation of the subsidies that are now paid. For the provinces the burden of interest charges would be reduced by an amount much greater than the subsidy to be cancelled.

TABLE 1.—SUBSIDY PAYMENTS AND THEIR CAPITALIZED VALUES

Province	Subsidy Payments for the Year Ended March 31, 1936	Debt to Be Assumed by the Dominion upon Capitali- zation of Subsidies at 3¼ Per Cent Interest
Manitoba.....	\$ 1,716,500	\$ 52,800,000
Saskatchewan.....	2,145,000	66,000,000
Alberta.....	1,771,500	54,500,000
British Columbia.....	1,624,600	49,988,000
Ontario.....	2,941,400	90,500,000
Quebec.....	2,592,000	79,800,000
New Brunswick.....	1,593,000	49,000,000
Nova Scotia.....	1,953,000	60,100,000
Prince Edward Island.....	656,900	20,200,000
Total.....	\$16,993,900	\$522,888,000

Table 2 gives the interest paid on total debt by the provinces in the fiscal year of 1934. The data for 1934 are used because that is the last year for which complete information is available in the Canada Year Book. The table also shows funded debt of the provinces as of March 31, 1934; the amount of debt to be assumed by the Dominion in return for subsidy cancellation; and the balance of the net funded debt which provincial governments would owe after this assumption. The assumption of this debt by the Dominion would completely terminate unconditional subsidy payments.

RECONSTITUTION OF THE PROVINCIAL DEBT

TABLE 2.—PROVINCIAL INTEREST CHARGES, EXISTING DEBT, DEBT CREDIT FOR SUBSIDY CANCELLATION, AND RESULTING NET DEBT OF THE PROVINCES AS OF MARCH 31, 1934

Province	Interest on Total Debt, 1934	Total Net Funded Debt, March 31, 1934	Debt Credit for Subsidy Cancellation	Balance of Debt
Manitoba	\$ 6,080,000	\$ 111,022,000	\$ 52,800,000	\$ 58,222,000
Saskatchewan	6,275,000	141,103,000	66,000,000	75,103,000
Alberta	6,173,000	132,143,000	54,500,000	77,643,000
British Columbia	7,504,000	113,754,000	49,988,000	63,766,000
Ontario	29,587,000	614,974,000	90,500,000	524,474,000
Quebec	5,267,000	111,488,000	79,800,000	31,688,000
New Brunswick	2,749,000	56,110,000	49,000,000	7,110,000
Nova Scotia	3,321,000	68,357,000	60,100,000	8,257,000
Prince Edward Island	230,000	3,621,000	20,200,000	16,579,000*
Total	\$67,186,000	\$1,352,572,000	\$522,888,000	\$829,684,000

*Credit.

Under the subsidy cancellation plan the total net funded debt of the provinces in 1934 would be reduced from about 1,350 to about 830 million dollars, a reduction of about thirty-nine per cent. In the case of Prince Edward Island, Maxwell points out that "some special arrangement would have to be made because its debt is less than the capital sum given above. No other province even approaches a similar situation." We assume that interest-bearing bonds for the principal amount might be delivered to the government of Prince Edward Island in order to effect complete and final termination of the subsidy.

Table 3 provides the balance of indebtedness of the provinces which, as shown in Table 2, would exist after the application of the debt credit for subsidy cancellation. Interest upon this indebtedness, at three and one-quarter per cent, is also given; the amount of this interest requirement may be compared with the interest on total debt (1934), repeated here from Table 2.

TABLE 3.—INTEREST BURDEN ON DEBT OF PROVINCES (1934)
AFTER DEBT CREDIT FOR SUBSIDY CANCELLATION

Province	Balance of Debt*	Interest Burden at 3¼%	Interest on Total Debt, 1934
Manitoba	\$ 58,222,000	\$ 1,892,000	\$ 6,080,000
Saskatchewan	75,103,000	2,441,000	6,275,000
Alberta	77,643,000	2,523,000	6,173,000
British Columbia	63,766,000	2,072,000	7,504,000
Ontario	524,474,000	17,045,000	29,587,000
Quebec	31,688,000	1,030,000	5,267,000
New Brunswick	7,110,000	231,000	2,749,000
Nova Scotia	8,257,000	268,000	3,321,000
Prince Edward Island	16,579,000†	539,000†	230,000
Total	\$829,684,000	\$26,963,000	\$67,186,000

*See Table 2 above.

†Credit.

RECONSTITUTION OF THE PROVINCIAL DEBT

The data given in Table 3 reveal that if the balance of provincial debt after application of debt credit were refunded at three and one-quarter per cent the interest burden of the provinces as a whole would be reduced from 67 million dollars to about 27 million dollars.⁵ Offsetting this reduction in the cost of service of debt would be a loss to the provinces of subsidies totalling about 17 million dollars. Thus the net annual reduction in the budgetary burdens of all of the provinces, *after* allowing for the cancellation of present subsidies, would be about 23 million dollars, which would not be obtained at the cost of the Dominion treasury, but would be attainable by that constructive readjustment of Dominion-provincial financial relationships that would merit fully the reduction in interest rates that has been considered. In the case of Manitoba, the gross saving in debt charges, as indicated in Table 3, is about \$4,200,000. The net saving, after the cancellation of its subsidy of \$1,700,000, is over \$2,400,000.

This potential annual saving to all the provinces of 23 million dollars, and of over \$2,400,000 to Manitoba alone, is the prize that we submit must in some way be won if there is to be a fundamental and permanent readjustment of the fiscal position of the provinces. It is an amount that is one and one-quarter times again as great as the subsidies which the provinces have been receiving. It is obtainable if a complete readjustment is secured. The first steps in that readjustment, as we have pointed out, are the cancellation of subsidies in return for the assumption of debt by the Dominion. This first step involves no increased financial burden for the Dominion. The second step is the refunding of remaining provincial indebtedness at low rates of interest. The second step will achieve a saving to the provinces in debt charges which, as Maxwell has pointed out, are "the heaviest burden upon the budgets of most provincial governments" and are charges that "are out of line with the present level of prices and interest rates."

5. In order to provide information that would be needed to determine the full effects of such a plan upon the provincial budgets, the tabulation below records the sinking fund payments and other debt charges of the provinces. The amounts involved are, relatively, not large and for this reason we have not considered these details above.

TABLE 4.—SINKING FUND AND OTHER DEBT CHARGES OF THE PROVINCES IN 1934

Province	Sinking Fund	Other Debt Charges	Total
Manitoba.....	\$ 298,000	\$ 318,000	\$ 616,000
Saskatchewan.....	153,000	22,000	175,000
Alberta.....	744,000	26,000	770,000
British Columbia.....	586,000	293,000	879,000
Ontario.....	914,000	1,590,000	2,504,000
Quebec.....	1,815,000	211,000	2,026,000
New Brunswick*.....	193,000	74,000	267,000
Nova Scotia.....	163,000	167,000	330,000
Prince Edward Island.....	129,000	.....†	129,000
Total.....	\$4,995,000	\$2,701,000	\$7,696,000

*1933 figures.

†Not reported.

RECONSTITUTION OF THE PROVINCIAL DEBT

The refunding of the indebtedness of the provinces at low rates of interest should be possible upon the consummation of the proposed plan, further details of which are considered in Sections B and C below. The features of the plan that have been discussed in this section have the very great merit of:

- (1) Reducing unmanageable provincial debt to manageable proportions.
- (2) Placing no additional burden upon the Dominion treasury.
- (3) Causing no increase in the total amount of securities to be floated in the capital markets. (The operation would be a conversion of provincial into Dominion obligations.)
- (4) Preparing the way for achieving the refunding of the balance of all provincial indebtedness at a period in the cycle when extremely low rates of interest prevail.

In this section, in summary, we have outlined one part of the complete reorganization of the province's budgetary position. Important as this step is, it nevertheless is insufficient in itself for the reason that it does not fully serve to readjust the burdens that must be readjusted if a permanent solution is to be found. Without relief from present and potential expenditures for services other than debt charges, there remains the threat of unbalance in budgets. Relief from a part of these excessive expenditures is considered in the remaining sections.

In the next section we consider the cost of social services and the basis for the need of their reallocation as Dominion and provincial financial responsibilities in the development of the comprehensive plan of readjustment that is presented in detail in the final section of this submission.

SECTION B. DOMINION AND PROVINCIAL BUDGETS IN RELATION TO SOCIAL SERVICES

In a preceding submission municipal expenditures have been analyzed to show the tax burden which rests upon the people of Manitoba as a result of the sharp decline in income.¹ Another section of this report will discuss the services now performed by the municipalities and the provincial government which should be borne out of funds raised by the Dominion government.²

We now turn to a study of Dominion revenues and disbursements in order to determine the ability of the Dominion to assume the cost of the services now maintained by municipal and provincial expenditures. The following record should be briefly noted. The municipalities have made sharp reduction in expenditures for education in order to maintain their burden for relief. In the province there has been a piling up of indebtedness, and an increasing exhaustion of revenue-raising possibilities in order that the service on debt might be maintained. The fiscal record of the Dominion is in sharp contrast; it reveals a resiliency that strongly reflects its superior ability to carry the burdens here suggested for transfer to it. In brief, the financial record of the municipalities and provinces has until very recently shown a continued deterioration, whereas the record of Dominion finances shows a very buoyant condition.

In the fiscal year ended March 31, 1933, the revenues of the Dominion government were 312 million dollars and its expenditures 533 million; this resulted in a budget deficit of 221 million dollars. According to the budget submitted by the Minister of Finance, as opposed to a deficit of 221 million dollars in 1933, the deficit in the fiscal year ending March 31, 1938, will be only 35 million dollars. In the five years since 1933 total expenditures have been very slightly reduced from 533 million to 520 million dollars. Income, however, has increased by no less than 173 million dollars, or 55 per cent, that is, from 312 to 485 million dollars. Since 1933, ordinary expenditures of the Dominion government have increased quite uniformly in the several classifications, by about ten per cent. Extraordinary expenditures taken as a whole have decreased. In detail these extraordinary expenditures show a substantial decrease in losses on loans (not provincial) charged off, and an increase of only 35 million dollars in capital expenditures, public works, and relief.

1. See Part V, The Effects of Declining Income.

2. See Section C.

DOMINION AND PROVINCIAL BUDGETS

In Table 1 below we provide a summary of the Dominion government budget accounts. This summary is given in the form of the average annual budget for the five-year period from 1926 to 1930 inclusive. This precludes the possible criticism that an "adverse" year may have been chosen. A similar annual average is given for the next five fiscal years, from 1931 to 1935 inclusive. Also included is the average budget for the last two years, that is, the average budget for the fiscal years 1936 and 1937.

TABLE 1.—AVERAGE DOMINION GOVERNMENT BUDGETS
(In millions of dollars)

Account	Five-Year Average		Two-Year Average
	1925-26 to 1929-30	1930-31 to 1934-35	1935-36 and 1936-37
RECEIPTS:			
Sales taxes, etc.	88	79	134
Income tax	58	64	93
Customs duties	158	90	73
Excise duties	56	47	44
Tax on banks, etc.	2	2	2
Total tax revenues	362	282	351
Total revenues	424	338	412
DISBURSEMENTS:			
Interest on debt	127	131	136
National defense and pensions	63	72	74
All other ordinary expenses	118	121	121
Subsidies to provinces	13	16	17
Public works	16	15	14
Old-age pensions		11	20
Total ordinary expenses	337	366	382
Surplus	87		30
Deficit		28	
Loans charged off, etc.	18	55	66
Capital expenditures and public works	21	15	32
Relief and bonuses		36	53
Total expenditures	376	472	533
Surplus	48		
Deficit		134	121

From the sharp decline in revenues during the depression years there has been an almost complete restoration of Dominion revenues to the level of the five years prior to the depression. However, it will be observed that there has been no substantial expansion in Dominion revenues beyond earlier levels. The increase in the indebtedness of the Dominion may be said to have been incurred largely to finance losses which occurred on the receipts side during the depression years and partially to finance increased outlays on the expenditure side.

During this period in which revenues have been restored to the pre-depression level, ordinary expenditures have increased by 45 million dollars. Almost one-half of this increase is accounted for by the cost of old-age pensions;

DOMINION AND PROVINCIAL BUDGETS

a quarter by expenses for national defense and pensions; and about another quarter by increased interest on debts. Extraordinary expenditures have increased about 110 million dollars; this consists of 50 million dollars in loans charged off, and a like amount for the new expenditure items of relief and bonuses. The very small remaining amount of about 10 million dollars represents an increase in extraordinary capital expenditures and public works.

Interest-bearing debt of the Dominion declined from 2,600 million in 1926 to 2,400 million in 1930. The increase during the depression years up to 1935 was approximately 800 million dollars, or about 33 per cent. By the end of the fiscal year of 1938 a further increase to about 3,400 million is anticipated. At that time the interest-bearing indebtedness of the Dominion will have been increased about 40 per cent from the low point of 1930. Interest on the debt has increased by only twelve per cent because of the decline in the average rate of interest from five to less than three and three-quarters per cent.

The following tabulation allows a comparison of certain Dominion expenditures with the total budget. (Figures given are in millions of dollars.)

	<i>Five-Year Average</i>		<i>Two-Year Average</i>
	<i>1925-26 to 1929-30</i>	<i>1931-32 to 1934-35</i>	<i>1935-36 and 1936-37</i>
Total tax receipts.....	362	282	351
Total revenues.....	424	338	412
Expenditure for social purposes:*			
Old-age pensions.....		11	20
Relief and bonuses.....		36	53

*Not including net increase in public works and provincial subsidies, which in 1931-32 to 1934-35 were six million, in 1935-36 and 1936-37, seven million.

The expenditures for social services, old-age pensions, relief, and bonuses represent items new to the budget since pre-depression years. In the five years from 1931 to 1935 old-age pension expenditures averaged 11 million dollars annually, and in the last two years 20 million dollars. This increase resulted from the fact that in the initial years the Dominion carried only 50 per cent of their cost, in the later period, 75 per cent. In the first five years of the depression relief and bonus payments averaged 36 million dollars annually; in the last two years, 53 million dollars. The note to the preceding tabulation indicates extremely small expansion in expenditures for public works and provincial subsidies. Taken together, the new expenditures for old-age pensions, relief, and bonuses in the last two years averaged less than 20 per cent of the total revenues of the Dominion government.

The following tabulation provides a brief record of total tax revenues, total revenues, and expenditures for social services (*excluding* education from social services) in Manitoba during the same period as given for the Dominion just above. (Figures given are in millions of dollars.)

DOMINION AND PROVINCIAL BUDGETS

	<i>Five-Year Average</i>		<i>Two-Year Average</i>
	<i>1925-26 to 1929-30</i>	<i>1931-32 to 1934-35</i>	<i>1935-36 and 1936-37</i>
Total tax revenue.....	4.7	5.8	7.2
Total revenue.....	12.0	13.8	14.3
Expenditures for social services (excluding education).....	2.2	2.7	2.7

In the fiscal years 1936 and 1937 *tax revenues* of Manitoba were increased by slightly more than 50 per cent from the levels of the five years immediately preceding the depression; in fact, the increase in total revenues was entirely due to this increase in taxation. Expenditures for social services increased at a less rapid rate. The increase in taxes was devoted largely to the service of an increased indebtedness, consisting in part of loans from the Dominion for relief purposes. Expenditure for relief is not here included with the social services, but even on this basis of computation more than one-third of Manitoba's tax receipts were devoted to social services, and of Manitoba's total revenues approximately the same proportion was spent for social services as in the Dominion as a whole. The burden on Manitoba, however, is substantially greater than this comparison would indicate, since the provincial government must maintain substantially broader functions than the Dominion government.

The following tabulation gives the average interest-bearing indebtedness of the Dominion government and the province of Manitoba for the three periods considered above. (Figures given are in millions of dollars.)

	<i>Five-Year Average</i>		<i>Two-Year Average</i>
	<i>1925-26 to 1929-30</i>	<i>1931-32 to 1934-35</i>	<i>1935-36 and 1936-37</i>
Dominion indebtedness.....	2,500	2,862	3,350
Manitoba.....	75	100	112

During this period the Dominion indebtedness has been increased by slightly *less* than 50 per cent and the indebtedness of Manitoba by slightly *more* than 50 per cent. But measured in terms of annual debt service requirements, as we have pointed out, the interest on Dominion debt has increased by less than 15 per cent, while the interest on debt for Manitoba has increased by almost 50 per cent. Thus is revealed the fact that the Dominion has, to some extent, although quite slowly, to be sure, secured the advantage of lower interest rates.

If we turn to relief expenditures for the three periods under consideration, we find that Manitoba's payments average almost 8 per cent of the total Canadian payments, despite the fact that it has only 6.75 per cent of the total population of the Dominion and less than 5 per cent of the total national income. Moreover, in the last two years for which annual average data are given, Manitoba's part in relief expenditures was considerably more than that of the Dominion. Of the total relief expenditures of Manitoba up to March 31, 1937, the Dominion share was 20 million dollars and that of Manitoba almost 24 million dollars.

DOMINION AND PROVINCIAL BUDGETS

SOURCES OF DOMINION REVENUES

Tax revenues of the Dominion government are derived chiefly from sales taxes, income taxes, customs duties, and excise revenues, in the order given. Other tax revenues are of only nominal amounts. Revenues from non-tax sources are fairly substantial, but almost one-half of the total is represented by the receipts from the post office alone. Table 2 provides a condensed summary of the various sources of revenue of the Dominion government for selected years since 1926.

TABLE 2.—SOURCES OF TOTAL RECEIPTS OF THE DOMINION GOVERNMENT
IN SELECTED YEARS
(In millions of dollars)

Receipts	1925-26	1929-30	1933-34	1937-38
Sales taxes	98	63	106	173
Customs duties	127	179	66	90
Excise duties	43	65	45	48
Total	268	307	217	311
Income taxes	59	71	63	115
Total taxes	327	378	280	426
Other revenues	56	68	45	59
Total receipts	383	446	325	485

In the twelve years covered by this table, income from sales taxes has increased by 75 million dollars and, as it happens, by 75 per cent. Income taxes have increased from 59 to 115 million dollars, but practically all of this increase is in the estimated revenues for the present fiscal year ending March 31, 1938. This increase is, of course, due largely to the increase in income as a result of economic recovery. Customs duties, owing to the increased degree of protection, have declined very substantially, while excise revenues have remained fairly constant. In commenting on the Dominion tax structure, Professor Shirras said in 1936: "In the future there seems room for more and better income and corporation taxation and for greater revenue from public utilities."³

Table 3 gives the percentage distribution of the total revenues of the Dominion government. It will be observed that the proportion of revenues derived from income taxes has increased by about one-half from 1926 to the present fiscal year. This increase, however, has failed to offset fully the decrease in the proportion of revenues derived from customs taxation. These data reveal the continued emphasis placed upon sales taxes, the proportion of revenues derived from sales taxes having increased from about 26 to 36 per cent.

The reorganization of Dominion-provincial financial relationships which we propose may require an increased amount of total Dominion revenues, which should be secured by creating new sources of revenue that will *not*

3. G. Findlay Shirras, *The Science of Public Finance* (3rd ed., Macmillan, London, 1936), Vol. I, p. 265.

DOMINION AND PROVINCIAL BUDGETS

bear too heavily upon the lower income sections, as they already bear a large share of the total Dominion tax burden.

TABLE 3.—PERCENTAGE DISTRIBUTION OF SOURCES OF
REVENUE OF DOMINION GOVERNMENT

Receipts	1925-26	1929-30	1933-34	1937-38
Total revenues.....	100.00	100.00	100.00	100.00
Income taxes.....	15.4	15.9	19.4	23.7
Sales taxes, etc.....	70.0	68.9	66.8	64.1
Customs.....	33.2	40.1	20.3	18.5
Sales taxes.....	25.6	14.1	32.6	35.7
Excise.....	11.2	14.7	13.9	9.9
Other revenues.....	14.6	15.2	13.8	12.2

Table 4 compares the budget deficit of the Dominion with total tax receipts, and gives the tax sources which have been utilized steadily to improve the deficit position since 1931. Considered as a percentage of receipts, the budget deficit was largest in the fiscal year 1933, when it reached 70.8 per cent of the total receipts of the Dominion government. The deficit for the present fiscal year (ending March 31, 1938) has been estimated by the Minister of Finance at 35 million dollars, or 7 per cent of the total receipts. This deficit, expressed as a proportion of total receipts, is one-tenth of the 1933 deficit. The last three columns of Table 4 reveal which tax revenues have made possible this steady diminution of the deficit. It will be observed that in every year since 1936 the increase in sales tax receipts has provided a greater proportion of total budget receipts than the increase in income tax, and this despite the marked increase in incomes resulting from economic recovery.

TABLE 4.—DECREASES IN DOMINION BUDGET DEFICIT AND TAX RECEIPT
INCREASES ACCOUNTING FOR MAJOR SHARE THEREOF

Year	Deficit in Total Budget as Percentage of Total Receipts	Percentage of Budget Receipts Provided by Increase in:		
		Sales Tax	Income Tax	Customs Duties
1930-31.....	23.3			
1931-32.....	33.5	5.6	-2.2	- 6.0
1932-33.....	70.8	7.1	0.3	-10.9
1933-34.....	41.2	7.4	-0.3	- 1.2
1934-35.....	34.0	1.7	1.7	3.0
1935-36.....	37.2	0.3	4.3	- 0.8
1936-37.....	19.5	9.1	4.2	1.8
1937-38.....	7.2*	3.9	2.3	1.6

*Estimated.

COMPARISON OF THE POSITION OF CANADA WITH THAT OF AUSTRALIA AND NEW ZEALAND

Table 5 provides a condensed picture of the sources of revenues for Canada, Australia, and New Zealand; these are expressed as annual averages for the five-year periods used in preceding tables. In a general way the sources

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of revenue are quite alike. It will be observed, however, that the sales tax has been utilized in Canada in good times as well as bad, but that in Australia and New Zealand the sales tax has been a substantial source of revenue in depression periods only. From 1925-26 to 1934-35 the revenues of the Dominion government *declined* by about 85 million dollars, whereas revenues *increased* in both Australia and New Zealand. In fact, in Australia and New Zealand a substantially balanced budget was maintained. In Canada very substantial deficits were incurred.

We are inclined to attribute these budgetary conditions to the fact that more appropriate monetary policies were followed in Australia and New Zealand than in Canada. We have commented on this point at considerable length in another section of this submission.⁴ We mention it again because of this fact: difficult as it would have been to suggest sources of increased taxation for Canada during the depression years of 1930 to 1935, difficulties just as great were met in Australia and New Zealand.

TABLE 5.—COMPARISON OF BUDGET REVENUES FOR CANADA,
AUSTRALIA, AND NEW ZEALAND

(Expressed in annual averages for five-year periods. Figures are in millions of dollars.)

Receipts	Canada		Australia		New Zealand	
	1925-26	1930-31	1925-26	1930-31	1925-26	1930-31
	to 1929-30	to 1934-35	to 1929-30	to 1934-35	to 1929-30	to 1934-35
Sales taxes.....	88	79	2	48	)	10*
Incomes taxes.....	58	64	53	51	17	38†
Customs duties.....	158	90	149	116	43	27
Excise duties.....	56	47	58	59	3	11
Estate duties.....			9	7	9	8
Miscellaneous.....	2	2	14	8	11)	5
Land tax.....					6	3
Total taxes.....	362	282	285	289	89	102
Other revenues.....	62	56	87	90	20	16
Total revenues.....	424	338	372	379	109	118
Total expenditures.....	376	472	382	369	114	121
Budget surplus.....	48			10	5	
Budget deficit.....		134	10			3

*Two-year average.

†Includes employment promotion taxation.

Table 6 compares important items of expenditure for Canada and Australia. In these data, which are not wholly comparable in some items, we find substantially greater expenditures for old-age pensions in Australia than in Canada. In the last five years Australia's average annual expenditure for this purpose was more than five times that of Canada. Even under the present Canadian arrangement, whereby the Dominion bears 75 per cent of the cost rather than the former 50 per cent, Australia's expenditures were three times larger. Subsidies to provinces in Canada are only about one-quarter of the

4. See Part III, The Effects of Federal Monetary Policy on Western Canadian Economy.

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subsidies Australia grants to her states. The data in Table 6 also reveal that the balance would have been substantially in favour of Australia even if interest on war debts had been paid. The postponement of payment for two years as generally agreed to by Great Britain has more recently been continued as a result of the Hoover moratorium.

On the whole, Table 6 reveals that the budgets of Canada and Australia are highly comparable, with the exception of greater subsidies and old-age benefits in Australia. It may also be noted that the two budgets are of about the same total amount despite the substantially smaller population of Australia, and despite its smaller total national income.

TABLE 6.—COMPARISON OF AVERAGE ANNUAL BUDGET EXPENDITURES FOR CANADA AND AUSTRALIA
DURING PRE-DEPRESSION AND DEPRESSION YEARS

(Expressed in annual averages for five-year periods. Figures are in millions of dollars.)

Expenditures	Canada		Australia	
	1925-26 to	1930-31 to	1925-26 to	1930-31 to
	1929-30	1934-35	1929-30	1934-35
Interest on unpaid war debts.....				(35)
Interest on debt.....	127	131	96	64
Subsidies to provinces.....	13	16	49*	66
Old-age pensions.....		11	48	58
Defense and pensions.....	63	72	189	69
Public works.....	16	15		
All other ordinary expenses.....	118	121		
Total ordinary expenses.....	337	366	382	357
Loans charged off, etc.....	18	55		
Capital expenditures and public works.....	21	15		
Relief and bonuses.....		36		12

*Two-year average only.

SECTION C. REALLOCATION OF GOVERNMENTAL SERVICES AND THE RESULTING BUDGETARY POSITION

The purpose of this section is to consider in detail proposed readjustments to provide a sound basis for the future budgetary position of the province of Manitoba. These proposed readjustments "give effect" (1) to readjustments in debt which have been considered in another section of this report but the effects of which are analyzed in this section; (2) to the cancellation of relief debt, the effects of which are also considered below; and (3) to readjustments in functions and revenues which are considered in detail in this section. This readjustment of governmental functions and revenues proposes that certain governmental responsibilities for social services be transferred from the province to the Dominion. In order to maintain these increased responsibilities, the plan also transfers certain revenue sources to the Dominion and suggests other sources of increased revenue. Finally, this report considers important and needed relief for municipalities. (See Appendix A for a list of certain benefits and advantages to municipalities.)

The suggested redistribution of functions is given financial measurement in the revision of Manitoba's budget for 1937 presented in Table 1. The amounts by which the Dominion budget will be affected by this reallocation of functions are available in Table 2. The latter table gives the effects of the changes in terms of the "proposed budget" for Manitoba. The extended detail of Table 2 covers the entire series of adjustments that result from our proposals. Its complexity grows out of that fact.

THE GENERAL NATURE OF PROPOSALS FOR REALLOCATION OF FUNCTIONS

A variety of methods for readjusting the financial relationships between provinces and Dominion have been proposed from many quarters. Unfortunately, just how these proposals are to be put into actual practice has not been suggested beyond such vague statements as that "certain social services should be carried by the Dominion." The general proposals made in this section embrace the transfer of all or part of the burden of certain social services to the Dominion government.

The plan here proposed has been designed to reduce the excessive amount of revenues now required by the province of Manitoba. The reduction in revenues required by the provincial government, however, will be substantially less than the amount proposed for transfer to the Dominion and the amount of savings resulting from refunding of debt. This results from the increase in certain expenditures made to afford a substantial measure of tax relief to the municipalities.

In so far as provincial expenses would be reduced by the transfer of social services to the Dominion, the province would be able to make certain increased outlays for services for which it is, and will continue to be, responsible, but which it has been wholly unable to maintain at a satisfactory level while carrying the heavy burdens, some of which are here proposed for transfer to the Dominion. Finally, a greater rate of allowance should be made for sinking funds than has prevailed in the past, although the total absolute amount would not be greatly increased because of the reduced amount of indebtedness which the province would have upon consummation of the proposed readjustments.

The transfer to the Dominion of a part of provincial indebtedness relieves the federal government of its present annual unconditional subsidy payments. The assumption of the cost of social services which we consider below would be controlled and limited in amount by the general terms governing the grant of social service allowances either to provinces, to municipalities, or to individual persons. In this way the objection of lack of responsibility connected with unconditional subsidies is overcome. At present, the Dominion, although responsible for raising revenues, has no control over their expenditure when transferred as subsidies to the provinces.

In his discussion of conditional subsidies Maxwell has put the matter this way: "The aim would be to give the Federal government the power to enlarge the scope of its legislation for social and public welfare purposes" (p. 243). Maxwell, however, raises the objection that an extension of powers of the central government will increase centralization. For this reason he urges great care in the consideration of burdens to be assumed by the Federal government. But despite this objection to centralization, he concludes that adjustment of the burdens of provinces is desirable, since they have responsibilities for functions far beyond their ability to finance these functions. Maxwell further emphasizes "the national significance" of some of the burdens that might be transferred to the Dominion government. As a further reason, we would add the pronounced "economic regionalism" that prevails in Canada. Provincial fiscal burdens are inflexible; income sources are subject to wide fluctuation. It is for this reason that the economic situation suggests greater centralization.

Maxwell proposes two methods "to alleviate the fiscal need of the poorer provinces" (p. 251).

1. "The federal grant might be varied from province to province according to some *general* index of fiscal need," or
2. "The grant might be dependent upon the need for a *particular* service." (Maxwell's italics.)

As regards the first suggestion of Maxwell, it would be necessary to reach general agreement on the "index of need" to be employed. Briefly, "need" implies financial burdens that are out of proportion to available or perhaps taxable sources. Since financial burdens are, of course, maintained wholly out

of income, we would urge the use of income data in the determination of needs that cannot be locally taken care of by the imposition of a "normal" level of taxation. (See Part V, *The Effects of Declining Income*, in which we have proposed the use of income data for the various provinces as a basis for measuring their respective abilities to pay taxes, and have given some reasons for preferring the use of income as an index of need for fiscal relief.) But unless there is general agreement as to the index of need to be employed, the very objection that Maxwell has raised to the payment of "unconditional subsidies" will reappear in the dispute sure to develop over the measure of fiscal need; for there is little difference between a dispute over the amount of subsidy needed and over an index to be used for the determination of need.

It is for this reason that we prefer the second proposal of Maxwell. Assuming that normal taxation is being imposed, the need of a province is for some particular service—it is never a generalized or inchoate need. Our proposals attempt to give objective expression to the needs of Manitoba. We would point out, however, that if intelligible conclusions are to be reached, general terms of policy or reorganization must be given specific and objective expression.

We would further add that if the financing of the cost or the partial cost of a specific service is transferred to the Dominion, the Dominion may assure itself of a degree of control proportionate to the burden it assumes by specifying the terms under which funds may be distributed. Control by the Dominion will be far more precise under this plan, despite the difficulty of developing these details, than over a total amount of "aid," subject only to the control of an index of need.

Because of the above considerations we urge that the Dominion government assume the burden of certain social services rather than grant subsidies based upon a general index of need. The reallocation of functions which we propose may be broadly divided into two classes: first, proposals covering debt cancellation and refunding; second, proposed transfer to the Dominion of the entire cost of relief and old-age pensions and of the partial costs of other social services. In addition, we suggest a contributory plan with respect to highways. Students of Canadian governmental economics have been widely agreed that the social services are a group of functions thoroughly appropriate for transfer to the Dominion government.

BUDGET OF MANITOBA: REVENUES AND EXPENDITURES FOR THE FISCAL YEAR ENDING APRIL 30, 1937

Table 1 summarizes revenues and expenditures of Manitoba for the fiscal year ended April 30, 1937; it is based upon the report for the fiscal year given in Appendix C. This table has been prepared so as to reflect credits or revenues that may be allocated to certain expenditures or vice versa. The purpose of these "offsets" is merely to aid in measuring *net* expenditure connected with certain activities (e. g., the maintenance of institutions for mental defectives).

REALLOCATION OF GOVERNMENTAL SERVICES

TABLE 1.—SUMMARY OF TAX REVENUES AND OTHER REVENUES AND EXPENDITURES FOR MANITOBA, YEAR ENDED APRIL 30, 1937

(This table is based on data in Appendix C, derived from Treasury Department statistics for the year ended April 30, 1937.)

Revenues	Amount of Revenues	Expenditures	Amount of Expenditures
TAX REVENUES:			
Succession duties	\$ 463,963		
Corporation taxes	1,221,049		
Railway tax	605,411		
Income tax on persons	912,118		
Special 2 per cent income tax	1,825,389		
Gasoline tax	2,015,130		
Automobile licenses	1,025,919		
Amusement tax	159,233		
Old-age pensions levy	344,211	Old-age pensions:	
		Pensions	\$ 659,631
		Administration	23,733
Other levies	23,901		
Total revenues from taxes	\$ 8,596,324		
NON-TAX REVENUES:			
Dominion subsidy	\$ 1,703,023		
Interest on school lands fund	267,272		
Liquor Commission	1,230,000		
Interest received:		Debt expenditures	\$ 6,459,485
Telephones	940,206	Interest	\$5,693,063
Judicial districts	\$ 75,538	Amortization of debt	
Drainage districts	78,430	discount	143,367
Power Commission	281,317	Sinking fund payment ..	378,918
Interest from municipal		Interest on trust funds ..	113,145
loans, pool elevators,		Other charges*	130,992
housing scheme, and			
other investments	509,360		
	944,645		
Credits:			
From maintenance of four insti-		Public health	2,130,978
tutions for mental defectives	188,482	Child welfare	531,451
		Hospitalization	532,968
		Public health	208,686
		Mental institutions	857,873
From educational institutions (nor-			
mal and general school fees)	117,371	Education	1,837,027
		Educational grants	1,384,430
		Other educational	
		expenses	345,889
		Agricultural grants	106,708
Mines and Natural Resources	602,370	Mines and Natural Resources	507,625
All other permits, fees, credits, etc.			
(fines, court fees, Land Titles Office		Maintenance of highways†	484,607
fees, etc.)	625,483		
		Government administration and func-	
		tions (not segregated)‡	2,050,377
		Aids to municipalities: Special aid for	
		roads, bridges, drainage, etc.	139,316
		Charge-offs	642,014
Total revenues	\$15,215,176	Total expenditures	\$14,934,793

See following page for notes.

REALLOCATION OF GOVERNMENTAL SERVICES

NOTES TO TABLE 1

*Payments of indirect debt and other charges.

†Total expenses for highway purposes in the fiscal year included:

Maintenance	\$ 484,607
Aids to municipalities	139,316
Interest on highway debt	896,940
Sinking funds	68,574
Total	\$1,589,437

‡A residual item, inasmuch as certain costs of a governmental character have been separately classified in the expense accounts. The items included under this heading are:

<i>Account</i>	<i>Amount</i>	<i>Explanatory Notes</i>
Legislation	\$ 173,926	
Executive Council	159,154	Includes cost of elections.....\$132,883
Treasury	125,818	Includes provision for annuities..... 82,686
Provincial Secretary	22,404	
Attorney-General	673,978	Includes costs for administration of justice 393,371
Municipal Commissioner	179,524	
Labor	80,418	Includes cost of employment service of Canada..... 21,014
Agriculture	98,760	Excludes \$106,708, costs of livestock promotion, extension service, etc., listed above under agricultural grants.
Health	115,790	
Public Works	420,605	Excludes \$484,607 for maintenance of highways, \$139,316 for aids to municipalities; \$187,839 maintenance of mental institutions. The latter amount is included in the cost of mental institutions; the former amounts are listed separately above.
Total	\$2,050,377	Total \$629,954

or to facilitate in measuring the effect upon the provincial budget of the transfer of certain social services to the Dominion. An example of the latter measurement is found in revenues and expenditures of the province for old-age pensions. The revenues of \$344,211 received in this account represent the tax levied by municipalities (including a very small amount of arrears) to provide their 50 per cent share of the \$659,631 expenditure of the province for old-age pensions. The share of Manitoba as a unit is 25 per cent of the total expenditure within the province for this purpose; the remaining 75 per cent is borne by the Dominion. We have considered this account in detail because our proposal for the transfer of the full cost of old-age pensions to the Dominion affects not only the "adjusted budget" of the province,¹ but also the tax burden of the municipalities. In Appendix A we have listed the advantages and financial gains or benefits that would accrue to the municipalities as the result of the adjustments which we propose in Dominion-provincial relationships.

1. See Table 2 for the budget after giving effect to this and all other adjustments which we propose.

From the budget data contained in Table 1 it will also be observed that offsetting the total debt expenditures of \$6,459,485 there are "interest" revenues from provincial telephones, \$940,206, and from other accounts amounting to \$944,645. We point out that these total debt charges and interest credits are appropriately adjusted in the proposed budget. The adjustments involve giving effect (1) to the cancellation of that portion of present debt incurred for relief purposes; (2) to the assumption by the Dominion of provincial indebtedness in return for cancellation of the subsidy it now pays to the province; and (3) to the refunding of the balance of the province's debt. We may at this point indicate that as the burden of interest the province pays is reduced the interest received is also reduced.

An additional offset is indicated in total expenditure on all forms of public health activity, against which there is a credit of \$188,482 for the earnings of institutions for mental defectives. Against education expenditures there are offset credits made up of fees from educational institutions. It will also be observed that fees, permits, etc., for utilization of mines and natural resources provided revenues of \$602,370, which considerably exceeded the cost of administration of mines and natural resources (\$507,625).

BUDGET OF MANITOBA AFTER GIVING EFFECT TO TRANSFER OF CERTAIN EXPENDITURES AND REVENUES TO THE DOMINION

The first column of Table 2 contains a condensed restatement of the revenues and expenditures of Manitoba for the fiscal year ending April 30, 1937, which were given in Table 1. In Table 2 we have made all adjustments involved in the transfer of the cost of certain services to the Dominion and in the allocation to the Dominion government of revenue sources. Upon making these adjustments we derive a "giving effect" budget statement for Manitoba. This budget statement (which is in balance at \$10,745,209) is affected, as we have pointed out: (1) by transfer of expenditures and revenues; (2) by transfer of certain indebtedness to the Dominion in return for the cancellation of subsidy payments; and (3) by the cancellation of debt incurred for relief purposes which has been borrowed from the Dominion treasury. Finally, the statement gives effect to refunding the remaining indebtedness of Manitoba at an interest rate of three and one-quarter per cent. We now turn to a consideration of these adjustments in more detail.

Revenues transferred to the Dominion—The plan proposes to abandon in favour of the Dominion the field of succession duties, partially to maintain the social services proposed for transfer to it. As indicated in Table 2, this results in a loss of revenue to Manitoba of \$463,963; it will, of course, result in increased revenues for the Dominion of a similar or greater amount, depending on whether present rates are maintained or increased by the Dominion government. Transfer of this source is recommended both to establish uniformity and to secure increased collections made possible by wider jurisdiction, and perhaps by higher rates.

TABLE 2.—STATEMENT SHOWING THE EFFECTS OF REALLOCATION OF FUNCTIONS AND CONVERSION OF PUBLIC DEBT

(Giving effect (1) to transfer to Dominion government of the cost of relief and the cost, or in some instances one-half the cost, of certain social services; (2) to provincial revenues transferred or remitted to the Dominion government; (3) to the cancellation by the Dominion of Manitoba's debt incurred for relief; (4) to the assumption by the Dominion of a part of Manitoba's outstanding debt in return for cancellation of subsidy; (5) to the refunding of the remaining part of Manitoba's debt; (6) to the restoration of certain costs for the enlargement of expenditures for certain services provided wholly by the province; and (7) to the reduction of the present level of taxation in Manitoba to be effected by holding an amount of tax receipts "in suspense.")

Account	Amount for Fiscal Year Ended April 30, 1937	Adjustment of Revenues			Amount after Adjustment	Revenue Eliminations Resulting from Debt Cancellation and Refunding	Revenue Items Transferred to Dominion Budget	Benefits, Direct and Indirect, to Municipalities and Unorganized Territory in Manitoba
		To Be Cancelled	Transferred to Dominion	To Be Held "in Suspense"				
TAX REVENUES:								
Income tax on persons	\$ 912,118				\$ 912,118			
Succession duties	468,568		\$ 468,568				\$ 468,568	
Corporation taxes	1,821,049				1,821,049			
Railway tax	605,411				605,411			
Special 8 per cent income tax	1,025,389				1,025,389			
Gasoline tax	9,016,130				9,016,130			
Automobile license	1,025,919				1,025,919			
Amusement tax	169,235				169,235			
Old-age pensions levy	\$44,311	\$544,311						\$544,311
All other levies	33,901	\$3,901						\$3,901
Total tax revenues, 1937	\$ 8,656,384				7,764,849			
Less amount reserved for tax reduction or expanding services				\$1,550,969 ^a	1,550,969			
Proposed tax revenues					6,413,880			
NON-TAX REVENUES:								
Dominion subsidy	\$ 1,708,028		1,708,028				1,708,028	
Interest on school lands fund	\$27,972		\$2,885				\$2,885	
Credits from institutions:					\$27,687	(1,705,083)		
(a) Mental hospitals	188,452							
(b) Educational	117,371		\$4,841		\$4,841			\$4,841
Mines and Resources	602,370				602,370			
Other fees, etc.	626,483				626,483			
Loggin Commission	1,850,000				1,850,000			
Telephone Interest	940,000				771,504	168,496		
Interest from self-sustaining enterprises and municipalities	\$44,645				655,475	\$91,172 ^b		168,639 ^c
TOTAL REVENUES	\$16,515,176	\$568,112	\$2,290,912	\$1,300,969	\$10,745,209	\$4,163,097	\$2,890,812	
Adjustment of Expenditures								
Account	Amount for Fiscal Year Ended April 30, 1937	To Be Cancelled	Dominion Aid for Social Services	Additional Allowances by Province	Amount after Adjustment	Expenditure Eliminations Resulting from Debt Cancellation and Refunding	Expenditure Items Transferred to Dominion Budget	
DEBT CHARGES:								
Interest	\$ 4,693,065				\$ 1,600,244 ^d	\$1,708,083	\$1,708,083	
Amortization of debt discount	148,397					148,397		
Provision for sinking fund out of revenue	\$78,918			\$ 106,342	\$78,600 ^e			
Interest on trust funds	115,145					115,145		
Payments of indirect debt and other charges	130,992				130,992			
EXPENDITURES FOR:								
Maintenance of highways	484,007		\$ 850,000 ^f	165,595	650,000 ^g		650,000	\$15,395
Old-age pensions	659,631	659,631	659,631				659,631	
Administration of old-age pensions	52,738				52,723			
Child welfare	551,451		565,725		565,726		565,725	
Public health	808,095 ^h		808,096		808,096		808,096	
Hospitalization	532,989 ⁱ		560,484		560,484		560,484	
Mental institutions	\$37,375 ^j		425,436		425,437		425,436	
Educational grants	1,854,450			1,000,000	854,450			1,000,000
Technical education			50,000		50,000		50,000	
Other educational expenses (except grants)	345,589				345,589			
Agricultural grants	106,708			800,000 ^k	300,000 ^l			
Tourist and industrial promotion					52,000			
Mines and Resources	507,086			125,075 ^m	630,283			
Government administration	2,060,777			200,000 ⁿ	2,260,777			
Aids to municipalities: roads and bridges	139,310				300,084 ^o			
Municipal market roads	642,014	642,014 ^p		800,084 ^q	400,000 ^r			269,694
Charge-offs								
TOTAL EXPENDITURES	\$14,654,795	\$2,307,790	\$2,829,462	\$2,310,392	\$10,745,209	\$4,246,186	\$4,432,485	
TOTAL BENEFITS, DIRECT AND INDIRECT, TO MUNICIPALITIES AND UNORGANIZED TERRITORY IN MANITOBA								\$3,628,724 ^s

NOTES TO TABLE 2

^a Reserved for tax reduction or expanding services.

^b The following tabulation provides information on (1) benefits to municipalities, based on an interest rate of 3½ per cent, and (2) total revenue eliminations resulting both from debt cancellation and from saving on benefits from reduction in interest rates:

Benefits to municipalities: Interest		
Cancellation of relief loans	\$181,075 66	
Other municipal loans, loans to school districts, and other items in which municipalities are affected	50,559 35	\$181,535 01
Revenue eliminations: Interest		
Manitoba Power Commission	\$ 74,085 11	
Bank interest	15,000 00	
Investments to be cancelled re:	14,832 00	
Elevators	80,127 00	
Association of debt	5,405 00	
Other investments	4,120 00	108,537 11
Total		\$91,172 12

^c Derived as follows from figures as of April 30, 1937:

Gross debt as of April 30, 1937	\$128,163,635 07
Deficit total of these securities (Manitoba) in making accounts at April 30, 1937	7,694,539 07
Leaving a net debt of	\$120,469,096 00
Deficit relief debt at April 30, 1937	16,197,810 00
Defect equivalent of Dominion subsidy, capitalized at 3½ per cent.	\$101,331,276 00
	\$4,400,694 70
Leaving a final debt of	\$ 45,930,584 84
Upon which the interest at 3½ per cent per annum would be	\$ 1,590,444 00

^d Adjustment of debt for sinking fund purposes. All of the final debt of \$48,290,881 84 might be charged against self-sustaining enterprises as follows:

<i>Sources of revenue for service of debt</i>	
Housing scheme, farm loans, pool elevators, drainage, etc.	\$ 8,997,000
Telephone	10,232,000
Power Commission	5,221,000
Highway debt	15,450,000 ^a
	287 proportion of gasoline tax revenues
Total	\$48,290,000

^e The amount of the debt charged to highways required to be serviced from gasoline tax is \$12,430,694 84. Sinking fund is calculated to produce \$15,400,694 84 in twenty years at 3½ per cent, viz., \$779,800 00.

^f 50 per cent contribution by Dominion for federal maintenance and construction of national trunk highways. This amount "matches" the total expenditures by the province: grants in aid to municipalities for roads, bridges, and market roads increased to \$400,000.

^g Detail of public health expenditures:

Destitution in unorganized territory	\$ 53,174 83
Disease prevention: public health nurses	114,555 44
Provincial laboratory	16,137 66
Health units	16,485 01
Health officers in unorganized territories	6,382 01
Total expenditures	\$208,685 85

^h Detail of hospitalization expenditures:

Statutory aid to hospitals	\$899,120 00
Hospital aid to persons in unorganized territory	25,505 83
Maintenance of aged and incurable persons in and outside institutions	50,312 16
Total expenditures	\$954,937 99

ⁱ Detail of mental institution expenditures:

	<i>Health and Public Welfare Administration and Subsidies</i>	<i>Public Works Maintenance</i>
Brandon Hospital	\$190,558 83	\$ 87,489 00
Saskatoon Hospital	180,780 24	87,886 81
Portage la Prairie Home for Mental Defectives	115,168 81	39,613 17
Psychopathic Hospital		55,042 04
Total for institutions	476,508 62	\$167,859 94 ^a
Add public works maintenance		50,312 16
Total expenditures		\$218,172 10

^j Aids to agriculture, including animal disease control.

^k Based upon estimates of Department of Mines and Natural Resources.

^l \$216,481 for partial restoration of reductions in salaries and \$100,000 for superannuation. Of the former amount \$200,000 is included in this item and \$16,481 in the additional allowance for Mines and Natural Resources. The total of reductions in civil service salaries (basis of fiscal year ending April 30, 1937) was \$480,880.

^m Non-territory.

ⁿ Exclusive of \$64,104 interest savings at reduced interest rates on indirect debt of provinces represented by securities initially issued by municipalities.

REALLOCATION OF GOVERNMENTAL SERVICES

The plan further proposes to hold in reserve for future provincial tax revision or as provision for expanding services a part of the present tax revenue. The amount of tax revenue so reserved for future tax reduction or as provision for expanding services is \$1,350,969. While the combined per capita debt of the province and the municipalities approximates the average for all provinces of Canada, we have shown that the total taxation of the province, as a result of the decline in the total incomes of the people of Manitoba, is at a rate of 14 per cent of such income, in contrast to an average of about 10 per cent for all the provinces.

The third source of provincial revenue to be eliminated is the present municipal levy for old-age pensions. It is not proposed, of course, that this specific levy will be continued by the Dominion government. Its elimination is made in the process of transferring the full cost of old-age pensions to the Dominion government. On the expenditure side of the budget we have transferred to the Dominion the full amount of expenditure for old-age pensions, but not the expenditure of Manitoba for the administration of old-age pensions in the province. As a result of these transfers and eliminations of revenue, the tax receipts of Manitoba would be reduced from \$8,596,324 to \$6,413,280, or only to \$7,764,249 if the revenues of \$1,350,969 held in suspense are used to provide for expanding services.

Cancellation of subsidy and assumption by the Dominion of a part of provincial indebtedness—The province of Manitoba, at present, receives an unconditional subsidy of \$1,703,023 from the Dominion government.² In the proposed budget this amount is eliminated from the non-tax revenues of the province of Manitoba; it is offset by the Dominion's assumption of \$52,400,695 of provincial indebtedness (upon which interest at three and one-quarter per cent requires an annual interest payment of \$1,703,023).

In determining the principal amount of indebtedness to be assumed by the Dominion the subsidy payments are capitalized at three and one-quarter per cent. This is probably the rate at which the Dominion would now be able to borrow in the private capital markets. In any event, it is pointed out that in the management of the market rates of interest there is some degree of control by the Dominion and by the central bank.

2. In addition to this subsidy, Manitoba received an interest payment of \$267,000, representing interest (since, in the exercise of its sole discretion, reduced by the Dominion treasury to a 4 per cent rate, which reduces the yield to \$237,000) on a principal amount (held in the form of a one-year debenture of the Dominion, amounting to \$5,919,862.65 due July 1, 1938) allocated by the Dominion for the school lands fund. In the refunding which we propose, this debt of \$5,920,000 might be cancelled in return for the assumption by the Dominion of a like amount of Manitoba's indebtedness over and above the amount the Dominion is to assume under the subsidy cancellation plan. This further cancellation would assist, if that should prove necessary, in securing for Manitoba (or for the other provinces holding similar "debentures") a degree of freedom or flexibility in the debt proposals.

REALLOCATION OF GOVERNMENTAL SERVICES

Cancellation of Manitoba's relief debt by the Dominion—In preparing the proposed budget there is first cancelled from the interest burden the interest paid by Manitoba on debt incurred to the Dominion for relief purposes. The cost of relief is a national burden to be assumed by the Dominion. As a national burden we consider that that part of past relief expenditures of this province which the province was unable to finance also should be borne by the Dominion. The inability of this and other Western provinces to bear the relief burden has been demonstrated by their need for Dominion relief financing of the type that has prevailed. That a similar relief burden is not felt by other provinces is evidenced by their ability in the past and at present to finance relief entirely out of their own resources.

The amount of debt due to the Dominion for all relief purposes at April 30, 1937, was \$19,257,819. Manitoba had due from municipalities for relief advances a sum of \$4,399,189. Interest paid to the Dominion on relief debt for a year at the present interest rate of 3 per cent would be about \$578,000. Interest received on the advances to municipalities at the same rate would be about \$132,000. In our proposed budget for Manitoba we give effect to these remissions of relief debt owing to the Dominion by the province. These adjustments involve (1) the deduction of relief debt due to the Dominion from Manitoba's debt; (2) the deduction of the debt to be taken over by the Dominion in return for cancellation of subsidies *before* determination of the final amount of provincial debt to be refunded. (The interest of \$1,590,244 upon this net amount of debt, which is \$48,930,585, is entered in the "giving effect" budget.) The adjustments also involve the deduction of \$132,000 from receipts; this is our estimate of the annual interest which is received from municipalities upon relief advances and which would be remitted upon the remission by the Dominion of Manitoba's relief debt.

Refunding of balance of indebtedness of Manitoba—As a result of the assumption by the Dominion of about \$52,400,000 of the indebtedness of Manitoba, the province should be able to refund the balance of its indebtedness at the lower interest rates now prevailing. Doubtless this refunding could be accomplished if the refunding operation, predicated upon the present plan of reorganization of Dominion-provincial relations, is recommended by the Commission and adopted by the Dominion government, and is explicitly held out as a partial consideration to bond-holders for their assent to the refunding of non-callable indebtedness. After the assumption by the Dominion of \$71,650,000 of debt as a result of the transactions described (relief debt of \$19,250,000 added to \$52,400,000) there would remain a total provincial indebtedness of about \$49,000,000. If the adjustment in Dominion-provincial financial relationships is completed in accordance with proposals herein made, doubtless this indebtedness could be refunded at an interest rate of about three and one-quarter per cent. The resulting interest charge to Manitoba on its remaining indebtedness would amount to about \$1,590,000. This is the amount provided in the proposed budget of Manitoba after giving effect to the suggested adjustments.

REALLOCATION OF GOVERNMENTAL SERVICES

Refunding of indirect debt—The foregoing interest savings relate only to a refunding of the province's own *direct* debt. In addition to its direct debt the province has indirect or contingent debt—securities of municipalities and hospitals—which it has guaranteed. Any plan of refunding of provincial debt should include the refunding of the indirect debt. In the case of the indirect debt, of course, the saving in interest would be a benefit to the municipality or hospital concerned, rather than to the provincial budget.

The amount of indirect debt (April 30, 1937) to be included in a refunding plan is \$3,963,278.96, upon which the interest at present rates is \$220,152.91 per annum. Interest at three and one-half per cent on the same face amount of securities would be \$138,714.76 per annum, a saving in interest of \$81,438.15 per annum. In more detail the figures are:

<i>Securities Issued by:</i>	<i>Principal</i>	<i>Interest at Present Rates</i>	<i>Interest at 3½%</i>	<i>Interest Savings at Reduced Rates</i>
(a) Municipalities . .	\$2,901,647.43	\$165,755.68	\$101,557.66	\$64,198.02
(b) Hospitals, etc. . .	1,061,631.53	54,397.23	37,157.10	17,240.13
	<u>\$3,963,278.96</u>	<u>\$220,152.91</u>	<u>\$138,714.76</u>	<u>\$81,438.15</u>

As a result of the transactions we have reviewed, the total direct interest burden of Manitoba would be reduced from \$5,690,000 to \$1,590,000. This is offset in part by the loss of a \$1,703,000 subsidy from the Dominion. It is also offset by a reduction in interest received of almost \$460,000, which is recorded in our "giving effect" budget. In this \$460,000 is included reduction in interest received from telephones (\$168,000) and interest received from other self-sustaining enterprises and municipalities (\$292,000). A final minor adjustment is represented by the elimination of amortization of debt discount charges. The charges for sinking fund, however, are increased from \$378,918 to \$574,260. The final *net* saving to the provincial government on debt charges, therefore, amounts to about \$1,888,000. The net saving on direct interest and amortization charges only would be about \$2,100,000.

Social service costs proposed for transfer to the Dominion—In the adjustments which are effected in Table 2 a total charge for social services of \$2,529,462 is recommended for assumption by the Dominion treasury. In detail, this social service cost of \$2,529,462 comprises the following:

The remaining provincial share of old-age pensions	\$ 659,631
50 per cent of proposed expenditures for:	
Highways	650,000
Public health	208,686
Technical education	50,000
50 per cent of present expenditures for:	
Hospitalization	266,484
Mental institutions	428,936
Child welfare	265,725
Total	<u>\$2,529,462</u>

The \$650,000 expenditure for highways represents a matching of the proposed provincial expenditure for this purpose; this is exclusive of provincial grants for aid to municipalities for municipal market roads. The proposed Dominion expenditure would be for federal maintenance of national trunk highways.

REALLOCATION OF GOVERNMENTAL SERVICES

Additional expenditures proposed to be undertaken by Manitoba out of its budget revenues—In the adjusted budget Manitoba proposes to undertake additional expenditures of \$2,319,392. In detail these additional expenditures comprise the following:

Increase in educational grants.....	\$1,000,000
Increase in agricultural grants.....	200,000
Technical education.....	50,000
Tourist traffic and industrial development promotion.....	25,000
Increase in aids to municipalities for municipal market roads.....	260,684
Increase in maintenance of provincial highways.....	165,393
Increase in provision for sinking fund.....	195,342
Partial restoration of Civil Service salary reductions.....	200,000
Superannuation.....	100,000
Increase in Department of Mines and Natural Resources.....	122,973
Total.....	\$2,319,392

It will be observed that this amount (\$2,319,392) is approximately equal to the total amount of expenditures proposed for the Dominion, exclusive of relief.

Items transferred to the Dominion budget—In the extended “giving effect” budget which is being reviewed, revenue credits to the Dominion’s budget are provided in the amount of \$2,290,812; expenditures transferred total \$4,232,485. The *net* amount of expense to the budget of the Dominion treasury, therefore, is \$1,941,673, exclusive of relief. These amounts include, of course, cancellation of the present subsidy in return for the assumption by the Dominion of provincial debt in an amount requiring interest payments which, at three and one-quarter per cent, will precisely offset the present expenditure of the Dominion for subsidy paid to the province.

That part of the cost of social services transferred to the Dominion includes expenditures for broad public health purposes—child welfare, hospitalization, disease prevention, and care of mental defectives. The expenditure budgeted to the Dominion for federal trunk highway purposes is to match an expenditure which the province proposes to undertake for maintenance of highways. The remaining expenditures budgeted to the Dominion include a small grant for technical education and the present provincial share of old-age pensions.

A word may be added with respect to the transfer of a part of the cost of social services and of highways. There has been wide agreement among students of Canadian federation finance problems that social service costs should be borne by the Dominion. Further, such burdens as unemployment relief are a distinctly national responsibility, and the proposed budget therefore contemplates that they shall rest fully with the Dominion. It was not anticipated at confederation that they should be assumed by the provincial governments. Finally, in the case of Australia, our sister dominion is proposing a broad program of health insurance, whereas our immediate proposals contemplate only needed remedial and preventive public health measures.

REALLOCATION OF GOVERNMENTAL SERVICES

With respect to the proposed 50 per cent matching expenditure for national trunk highways, we point out two facts: first, as a result of severely curtailed expenditure, highways have sadly deteriorated; second, the earnings of \$250,000,000 on tourist account make highways a most important national earning asset.

Benefits to municipalities—It is self-evident that a province is composed of municipalities just as the Dominion is composed of provinces. We have endeavoured to exercise as careful regard for our constituent elements as we have suggested that the Dominion exercise for the provinces. With this in mind, we have listed in the final column of the proposed budget the amount of benefits, direct and indirect, to municipalities and unorganized territory in Manitoba. These may be summarized and explained as follows:

Old-age pension levy	To be cancelled by the province.....	\$ 344,211*
Other levies	To be cancelled by the province.....	23,901*
Interest	Remissions and reductions.....	182,585
Roads	Increased expenditures on Dominion and provincial highways.....	815,393
	Increased grants to municipalities and unorganized territory for market roads	260,684
Education	Increased grants.....	1,000,000
	Total.....	\$2,626,724†

*Levies now made on land in municipalities to be cancelled.

†Exclusive of \$64,198 interest savings at reduced interest rates on indirect debt of province represented by securities initially issued by municipalities.

SUMMARY

The total direct and indirect benefits to municipalities resulting from our proposed reallocation of functions and expenditures are \$2,626,724. We point out that the additional expenditure to be provided by the province amounts to \$2,319,392 and that, exclusive of relief obligations, the *net* amount of added expenditure proposed for the Dominion budget is \$1,941,673. Thus, the benefits, direct and indirect, to municipalities and unorganized territory in Manitoba are an amount in excess of the net amount of added expenditure proposed for the Dominion budget, exclusive of relief.

In addition, based upon the adoption of the adjustments as proposed, the province could secure a net saving of about \$2,100,000 on its present heavy burden of interest and amortization charges. This would be obtainable by refinancing at the present low rates of interest.

In brief, not only can the province assist the municipalities by more than the assistance the Dominion is asked to render the province, but there would be obtained by the refunding plan, without any additional cost to the Dominion, a saving to the province of one and one-quarter dollars for each dollar of net additional expenditure by the Dominion, exclusive of relief.

APPENDIX A

BENEFITS TO MUNICIPALITIES, DIRECT AND INDIRECT, AND UNORGANIZED
TERRITORY, RESULTING FROM THE PROPOSED REALLOCATION
OF GOVERNMENTAL SERVICES

1. Cancellation of municipal levy for old-age pensions, amounting to \$344,211.
2. Cancellation of other levies by the province of \$23,901.
3. Remission and reduction of interest charges amounting to about \$183,000.
4. An increase in annual expenditures on Dominion and provincial highways from \$484,000 to \$1,300,000.
5. Increased grants to municipalities for market roads of \$260,684.
6. Increased education grants by the province of \$1,000,000.
7. Interest savings at reduced interest rates on indirect debt of the province represented by securities initially issued by municipalities, \$64,198.

APPENDIX B

POSSIBLE SOURCE OF ADDITIONAL REVENUE FOR THE DOMINION GOVERNMENT TO
ASSIST IN FINANCING THE COST OF SOCIAL SERVICES TO BE TRANSFERRED TO IT

1. Transfer from province to Dominion of succession duties as a field of taxation.
2. Increased rates of succession duties.
3. Monopoly taxes.
4. Initiation of taxes comparable to Great Britain's recently enacted National Defence Contribution. In England this "prosperity" adjunct to the income tax assists in the financing of rearmament expenditures. Its equivalent in Canada might be used, fortunately, for less anti-social purposes, to finance part of the social services.
5. A tax on interest comparable to that of Australia.

REALLOCATION OF GOVERNMENTAL SERVICES

APPENDIX C

STATEMENT OF REVENUES OF MANITOBA FOR FISCAL YEAR ENDED APRIL 30, 1937

Dominion subsidy	\$1,703,023
Attorney-General	1,576,243
Liquor Commission	\$1,230,000
Fees and fines	346,243
Agriculture: Fees	8,815
Education:	
Revenues from institutions	117,371
Administration	19,076
Legislation: Fees, etc.	4,592
Provincial Secretary	54,972
Labor: Bureau of Labor	27,604
Public works: Insurance Act fees	89,975
Treasury:	
Interest	944,646
Judicial districts	\$ 75,538
Drainage districts	78,431
Capital: Power Commission	281,317
General: Municipalities and self-sustaining enterprises ..	509,360
Succession duties	463,963
Interest from school lands fund	267,272
All other revenues	35,027
Municipal Commissioner:	
Income tax on corporations not taxed under Corporations Tax Act	592,850
Soldiers' taxation relief levy	17,294
Corporation taxes	628,199
Railway tax	605,411
Public amusements	159,233
Gasoline tax	2,015,130
Automobile licenses	1,025,919
Income tax on persons	912,118
Special 2 per cent income tax	1,825,389
Unoccupied land tax	1,432
All other revenues	6,076
Interest from telephones	940,206
Health and public welfare:	
Levy for relief in unorganized territory	5,175
Maintenance credit: mental institutions	188,482
All other revenues and fees	33,102
Old-age pensions levy	344,211
Mines and Natural Resources: Permits, fees, interest, etc., from lands, mines, forests, fisheries, game and fur, water power, etc.	602,370
Total	\$15,215,176

REALLOCATION OF GOVERNMENTAL SERVICES

APPENDIX C—Continued

STATEMENT OF EXPENDITURES OF MANITOBA FOR FISCAL YEAR ENDED APRIL 30, 1937

Public debt charges		\$6,459,485
Interest	\$5,693,063	
Sinking funds	378,918	
Amortization of debt discount	143,367	
Interest on trust funds, etc.	113,145	
Indirect debt and other charges	130,992	
Write-offs: Of items carried in current account		642,014
Legislation		173,926
Executive Council		159,154
Treasury		125,818
Provincial Secretary		22,404
Education		1,730,319
Educational grants	1,384,430	
All other	345,889	
Agriculture		205,468
Attorney-General		673,978
Health and public welfare		2,058,929
Child welfare	531,451	
Mental institutions	670,034	
Hospitalization	532,968	
Public health	208,686	
All other	115,790	
Mines and Natural Resources		507,625
Old-age pensions		683,364
Pensions	659,631	
Administration	23,733	
Public Works:		1,232,367
Special aid for market roads	139,316	
Maintenance of highways	484,607	
Maintenance of mental institutions	187,839	
All other expenditures, as for maintenance of public buildings, roads in mining areas, telephones, purchasing bureau, etc. ..	420,605	
Municipal Commissioner		179,524
Labor		80,418
Total		\$14,934,793

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